



# PRICING DESK GUIDE

FOURTH EDITION

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# Document Change History

Date	Changed Pages	Description of Change
4/5/10		4 <sup>th</sup> Edition, Pricing Desk Guide Issuance
10/1/11	2-20 and 3-28	Modular wall systems may be purchased with the TI allowance
10/1/11	5-1	Penalty for canceling a project after contract execution and prior to Rent start revised
10/1/11	5-2	Space assignments in a lease construction project are non-cancelable
10/1/11	5-3	Customers cannot release cancelable space within the first 16 months of an OA term
6/05/14	2-15 and 3-23	Update TI general allowance



# Chapter 1. Introduction

The Pricing Desk Guide (PDG) presents the policies used by the Public Buildings Service (PBS) to price real estate and related services to federal tenant agencies. The PDG sets policy for the entire PBS owned and leased portfolio, and provides pricing direction for both general cases and special circumstances. It is designed to guide PBS employees in the performance of their work, and also serves as a resource for tenant agencies seeking a more thorough understanding of PBS pricing policy and its application.

The Federal Management Regulation (FMR), Part 102-85—Pricing Policy for Occupancy in GSA Space,<sup>1</sup> outlines the basis of the pricing policy detailed in the PDG. In accordance with the FMR, the PDG capitalizes the word “Rent” when referring to the amounts charged by PBS to tenant agencies for space and related services. When “rent” appears in lowercase, it designates the contract rent that PBS pays lessors.

The PDG is not a user’s guide for PBS’ inventory system, the Occupancy Agreement Tool automated system, the billing process, or spatial data management. Separate documentation is available to provide information on those systems and processes.

For cases where there is no applicable written policy or where an exception is sought, consult the regional portfolio director, who has authority to modify operating procedure as defined within the pricing policy to accommodate special circumstances.

This PDG replaces all earlier versions, including the third edition.

## 1.1. What’s New in the Fourth Edition?

### 1.1.1. Document Changes

The PDG has been reorganized since the third edition. PDG readers will notice the following changes:

- All leased space policy is consolidated in chapter 2 and chapter 3 consolidates the federally owned space policy.
- The headings within chapters 2 and 3 are named and sequenced to better align with the PBS Rent bill.

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<sup>1</sup> The complete reference is Code of Federal Regulations, Title 41-Public Contracts and Property Management, Chapter 102-Federal Management Regulation, Part 102-85-Pricing Policy for Occupancy in GSA Space.

- Much of the historical and background information was removed. This information primarily served to explain the transition to New Pricing that occurred in 1996. In some cases, background is preserved as a note.
- Blank pages are included between some chapters to allow space for future clarifications and to allow replacement pages for printed versions.

### 1.1.2. Policy Changes

The PDG incorporates all of the previously issued Pricing Policy Clarifications in effect at the time of publication. In addition, PBS changed the following policies since the third edition:

- Design intent drawings – leased space
- OMB Circular A-11 Appendix B – leased space
- Community joint use – leased and federally owned space
- Remeasurement – federally owned space
- General storage – federally owned space
- Portfolio leases – a national pricing deviation is now required to create a portfolio lease

## 1.2. Federally Owned versus Leased Space Pricing

The Rent for federally owned space and leased space is based upon similar components but different principles.

- **Federally owned space** – Rent is based on an appraisal or return on investment, with other applicable charges added.
- **Leased space** – Rent is a passthrough of the underlying lease contract rent, plus any standard operating costs not performed through the lease, the PBS lease fee, and security charges.

Although there are many policy similarities between leased and federally owned space, there are significant differences that are spelled out in appropriate detail in chapters 2 and 3.

## Chapter 2. Pricing in Leased Space

This chapter describes in detail how the Public Buildings Service (PBS) prices leased space. Pricing of federally owned space is addressed in Chapter 3, Pricing in Federally Owned Space.

### 2.1. The Occupancy Agreement

The Occupancy Agreement (OA) is a complete, concise statement of the business terms governing the relationship between PBS and the tenant agency for a specific space assignment. The OA serves as the billing document on which subsequent Rent payments are based. Every space assignment in the PBS portfolio must have its own OA. Each assignment is recorded in the PBS inventory system. Lease prospectus submittals must be accompanied by OAs signed by each tenant agency.

The OA addresses both the financial specifics of the agreement (reflecting the underlying lease contract) and the responsibilities of PBS and the tenant agency. The OA is not a lease, nor is it a document detailing building rules and regulations. It is a formal agreement between the signing parties; PBS will honor its terms and expects the tenant agency to honor its terms as well. The OA consists of four parts:

- Description of Space and Services
- Clauses (Terms and Conditions)
- Signature Page
- Financial Summary

The OA is developed and updated through successive iterations, beginning with initial preliminary budget estimates, continuing through space acquisition and development, and ending in the final, definitive billing OA. Thus, the OA serves as a preview of the tenant agency's total Rent charges. By revising and updating the preliminary OA as more information becomes available, PBS is sharing with the tenant agency how the business terms evolve throughout the space acquisition process.

#### 2.1.1. Description of Space and Services

The Description of Space and Services section of the OA identifies the usable and rentable square footages, the number of parking spaces, the type of space, the building name and address, and the OA term.

The OA gives the tenant agency a right to occupy the space for a specific duration called the OA term. Tenant agencies do not have

a perpetual right to occupy the space identified in the OA. OAs should be coterminous with the lease term.

For leases with specific renewal option periods, whether or not PBS evaluated the option before the lease award, the option period is not to be included in the OA term. When the option matures, PBS must still determine if the option is fair and reasonable relative to the market. Based on this determination, PBS may choose not to exercise the option. PBS commits only to lease terms to which the tenant agency is willing to commit through the OA.

### 2.1.2. Clauses

The Clauses section of the OA addresses the responsibilities of PBS and the tenant agency. There are four types of clauses, identified below.

The **PBS standard clauses** explain the obligations of both PBS and the tenant agency during the acquisition of space as well as during occupancy. The standard clauses are mandatory for every OA and may not be changed by the tenant agency. PBS developed these clauses to implement the regulations regarding the pricing of space provided in the Federal Management Regulation (FMR). The FMR does not address in detail the responsibilities of PBS or the tenant agency. These standard clauses are different for leased, federally owned, and U.S. Postal Service assignments.

The **agency-specific clauses** outline terms and conditions that a particular tenant agency or bureau has agreed to use nationally in every OA. Some agency-specific clauses are optional because they only apply to a specific subset of the tenant agency's occupancies.

The **optional clauses** apply in certain situations that are relevant to some, but not all, OAs.

The **ad hoc clauses** consist of various terms and conditions specific to the assignment and not already included in the OA. These must be approved by PBS and added at the OA level.

Table 2-1. Occupancy Agreement Clause Descriptions

Clause Type	Requirement	Application
PBS standard clauses	Mandatory	Required for all occupancies
Agency-specific clauses	Mandatory or optional	Could apply to all of a tenant agency's occupancies (mandatory) or just a subset (optional)
Optional clauses	Optional	Could apply to any occupancy, based on the situation
Ad hoc clauses	Optional	Specific to one occupancy

### 2.1.3. Signature Page

For all space assignments, PBS requires tenant agency agreement via signature on the OA before incurring significant costs to pursue the project or procurement. Both parties' signatures are required for billing. PBS does not accept handwritten changes to the OA from either party.

Tenant agency signature on the OA is required before PBS enters into a lease contract or submits a lease prospectus on the tenant agency's behalf. Furthermore, at the point of signing the lease contract, the latest iteration of the OA signed by the tenant agency confirms its financial commitment to pay the Rent according to the terms and conditions stated in the OA. If the tenant agency later backs out of the signed OA, PBS reserves the right to seek reimbursement. See Chapter 5, Tenant Agency Rights and Options, for further discussion.

When a tenant agency is being displaced unwillingly, as in the case of a forced move, there may be resistance to signing an OA. In these cases, PBS may proceed without tenant agency signature on the OA, provided PBS is able to demonstrate attempts to secure the displaced tenant agency's signature and that the tenant agency was provided opportunities to influence the project. PBS must keep documentation of the communication effort in the project file.

In some instances, PBS must act timely to protect the government's financial interests without the benefit of an executed OA. A clear example is the case in which PBS must execute a new lease (and move a reluctant tenant agency) to avoid a holdover

tenancy. In such cases, the approval of the regional portfolio manager must be obtained before proceeding with the action.

#### 2.1.4. Financial Summary

The financial summary section of the OA provides a preview of the tenant agency's Rent bill. It itemizes the cost components of the Rent payment and summarizes both the financial terms and any lump-sum payment requirements.

The financial summary can also serve as a planning and budgeting tool to aid the tenant agency in the understanding of future financial obligations. For this reason, PBS must continue to update the OA with accurate data to enable the tenant agency to use the OA to guide decisions.

#### 2.1.5. Revising an Occupancy Agreement

The following events require a revision to an existing OA and tenant agency signature is required to confirm the modification. The changes must be supported by the underlying lease contract terms.

- Tenant agency expands or reduces space at an existing location
- Services are added or removed
- PBS agrees to fund additional tenant improvements (TIs), which are then amortized over the remaining OA term, or over an extended OA term
- PBS or the tenant agency wishes to revise the OA terms (must mutually agree), in accordance with a Supplemental Lease Agreement (SLA)

The following events require sending a revised OA to a tenant agency, along with a cover letter that explains the change in the assignment. The cover letter must state that it is an administrative OA for notification purposes and that tenant agency signature is not required.

- Joint use amenities added to or removed from the building
- Capital expenditures for new or enhanced security fixtures or features approved by the Facility Security Committee (FSC) added to the building housing the lease
- Lease extensions, if the extension is advancing only the lease expiration date and there are no changes in rent or square footage

- Parking spaces added to or removed from an assignment
- Antennas added to or removed from an assignment

The following rates are adjusted annually. The OA Tool automatically updates OA data for these adjustments. Transmittal of a revised OA supporting the annual adjustments is not required.

- Operating costs
- Real estate taxes
- Parking
- Antennas
- Building-specific amortized capital (BSAC) security, if applicable
- Joint use



**Note:** OAs are not revised or sent to tenant agencies for any programmed change in the lease contract rent (such as preset bumps or steps in the contract rent rate) if they are included in the initial OA.

## 2.2. Occupancy Types

All occupancies fall into one of three broad categories: new, continuing, or backfill.

### 2.2.1. New Occupancies

For pricing purposes, a new occupancy is defined as space that is new to the PBS inventory. The space may or may not have had a prior tenant. The space is considered new if its prior use was non-PBS, or if PBS' occupancy is discontinuous. For example, if a building was once leased to PBS, but the lease expired and the PBS tenant vacated the space, and at a later date PBS awards a new lease for all or part of the same space, that space is considered new to the PBS inventory. New occupancy, for the purposes of pricing, does not include succeeding leases, superseding leases, lease extensions, lease renewals, the exercise of a purchase option, or the purchase of buildings already occupied by federal tenant agencies under PBS leases.

Although the leased space may be new to the PBS inventory, the offered space may contain TIs from a previous tenant. PBS' policy and practice in these cases is to require the prospective lessor to

provide the full TI allowance based on the tenant agency's tier. If acceptable to PBS and the tenant agency, the lessor may be able to use some of the existing TIs, but all demolition costs are to be borne by the lessor as part of the offered shell rental rate. See section 2.5.10.B for additional discussion of TIs in relet space.

In some cases, there may be a new occupancy added to an existing occupancy, such as an expansion to an existing lease. In these instances, PBS revises the existing OA to include the expansion space. The OA Tool blends the rates of the existing and expansion space, if necessary, through the use of an incremental version. The term of the existing OA may also be adjusted. The OA should continue to reflect the underlying lease contract.

### 2.2.2. Continuing Occupancies

In leased space, continuing occupancy is characterized by the execution of a lease extension, succeeding lease, or superseding lease (whether the result of competition or a sole source negotiation), or the exercise of a renewal option. Continuing occupancies retain the passthrough pricing structure of the original lease.

As the end of a lease term approaches, PBS and the tenant agency must work together to develop the leasing strategy for the follow-on term. If PBS and the tenant agency choose to exercise a renewal option that was evaluated at the time of the initial lease term, then the terms of the renewal apply. If PBS and the tenant agency decide to enter into a succeeding or superseding lease, the tenant agency is afforded up to the full TI allowance (both the general and customization components). The tenant agency may elect to use only part or none of the TI allowance, and the underlying lease contract reflects the passthrough cost. If the tenant agency desires TIs that were not negotiated for the renewal option, then a reimbursable work authorization (RWA) is required.

### 2.2.3. Backfill Occupancies

Backfill occupancies occur when a tenant agency occupies existing space that is already built out but vacant.

#### A. Valuation of the Existing Tenant Improvements

PBS pricing for vacant existing space (space in the PBS inventory with a prior use or tenant) begins with the lease contract value, then adds the cost to amortize any new TIs the tenant agency elects.

If the lessor finances the tenant agency's TI, PBS absorbs the demolition costs, which are identified separately in the lease contract and are not passed through to the tenant agency. Therefore, the resulting contract rent is not completely passed through to the tenant agency.

## **B. Determination of the TI Allowance**

Subject to PBS' ability to fund, PBS may provide backfill occupancy tenant agencies the total TI allowance that would have otherwise been available under a new occupancy. PBS first requests that the lessor provide the funding for the TI allowance and any necessary changes in shell elements. The lessor can be compensated in the following ways:

- An extension of the firm term of the lease
- An additional increment in rent

Having the lessor provide these funds conserves scarce BA54 funds. As in other occupancies, the tenant agency is responsible for TI costs that exceed the TI allowance.

## **C. Backfill Pricing Flexibility**

PBS may exercise administrative discretion in setting rental rates for backfill tenant agencies to optimize income to the Federal Buildings Fund (FBF). Realty practitioners or others involved in the proposed rent concession transaction must confer with the building's regional asset manager. Before offering a reduced rate, a pricing deviation approved by the regional portfolio director is required. An offer to go below the lease contract rental rate must not cover a period beyond the firm term of the lease and could cover a shorter period.

If the backfill tenant agency, in turn, returns the space upon 4 months' notice before expiration of the OA term, then the tenant agency is liable for any portion of the rent concession unearned by that date. (See discussion of rent concessions in section 2.17.)

## 2.3. Pricing Fundamentals – Space Measurement

At least two of the following three space measurement values are specified in the lease contract and identified in the OA:

- **Rentable square footage (RSF)** – the area for which the tenant agency is charged Rent; may include a share of building support and common areas.
- **Usable square footage (USF)** – the area where a tenant agency normally houses personnel and/or furniture.



**Note:** In the lease, USF is also known as American National Standards Institute/Building Owners and Managers Association (ANSI/BOMA) office area. For PBS space measurement, USF includes joint use space. The term USF is used throughout the PDG because PBS' inventory and billing systems recognize USF, not ANSI/BOMA office area.

- **Common area factor** – a conversion factor determined by the building owner and applied to the USF to determine the RSF for the space.

PBS buildings are assigned according to the PBS National Business Space Assignment Policy, current edition. This PBS policy is based on BOMA's Standard Method for Measuring Floor Area in Office Buildings ANSI/BOMA Z65.1, current edition, with modifications applicable to PBS' business.

## 2.4. Pricing Standards – Building Shell Rent

### 2.4.1. Building Shell Definition

Building shell is the complete enveloping structure, the base building systems, and the finished common areas (building common and floor common) of a building that adjoin the tenant areas.

The building shell definition is further detailed in Table 2-2. Shell Definition. The definition of TIs is found in section 2.5.1. The separation of building shell and TIs is observed in commercial real estate practice. The PDG provides a standard definition of the elements of the building shell to support regional consistency in the application of TI allowances. In addition to building shell and TIs, there may be building security requirements that are a separate capital investment in the property. These security costs are not included in the building shell or TI for allowance or rate setting purposes as discussed in section 2.9.2.B.

When space is new to the PBS inventory, all demolition costs are included in the building shell rental rate. When leased space is backfill, any demolition costs or any necessary replacement of shell elements are not included in the building shell or TIs. PBS funds demolition and replacement of shell item costs for backfill occupancies in leased space. These costs are identified separately in the lease contract and are not passed through to the tenant agency. Therefore, if the lessor is funding the TIs, the resulting contract rent is not completely passed through to the tenant agency. See sections 2.2.1 and 2.2.3 for additional information on new and backfill occupancies.

PBS must use the shell definition in its entirety and without deviation in the Solicitation for Offers (SFO). Lessors are to refer to the definition when developing their shell rent rate. Shell rent is the single most important component of the lease contract rent. If a tenant agency desires upgrades to base building systems above the PBS shell definition stated in the SFO, the realty practitioner is to list the upgrades separately and ask the offerors to price the enhancements. Tenant agency-driven upgrades to building shell are to be separately priced from the building shell and are considered TIs.

While the shell definition is not a prescription for how private-sector lessors design buildings or engineer base building systems, it establishes a comprehensive market-based boundary between building shell and tenant work. Although some of the specifics may vary from the practice of local real estate markets, PBS must require prospective lessors to price shell as nationally defined so that the distinction between shell and TIs is consistently applied for all PBS tenant agencies across the country.

The shell rental rate is identified within the lease in accordance with the building shell definition. The definition of building shell is included in all leases. PBS policy is to include cyclic painting and carpet replacement in the lease contract with the expense carried by the lessor; the lessor's shell rent includes these costs. PBS must discuss the frequency of cyclic carpet replacement and repainting with the tenant agency before finalizing the SFO.

The building shell includes the following items for the base building and tenant areas. Specifics for TIs are located in section 2.5.2.

Table 2-2. Shell Definition

Base Building	Tenant Areas
Base structure and building enclosure components (windows with exterior finishes) are complete.	Broom-clean concrete floor slab, with level floor not varying more than ¼ inch over 10-foot horizontal run, in accordance with American Concrete Institute Standards.
Base building electrical and mechanical systems (e.g., central fire alarm, chiller plant, cooling tower) are complete and functional.	Gypsum wallboard, spackled and prime painted, on exterior perimeter walls and interior core walls, is installed.
All common areas, such as lobbies, elevators, fire egress corridors and stairwells, garages, and service areas are complete. (Circulation corridors are provided as part of the base building only on multi-tenanted floors where the corridor is common to more than one tenant. On single tenant floors, only the fire egress corridor necessary to meet code is provided as part of the shell.)	2 by 2 feet suspended acoustical ceiling with 2 by 2 feet parabolic fluorescent (or other building standard, such as 2 by 4 feet fixtures) installed in the ceiling grid for an open office plan at the rate of one fixture per 80 USF, is installed.
Building common restrooms are complete and operational.	Common corridor stud walls, without gypsum board on demised tenant premises side and without suite entry door, are installed.
<p>Building cores on each floor with assignable space contain the following: tappable domestic water riser, service sanitary drain, sanitary vent, ready for extension to tenant-demised areas.</p> <p>Electrical power distribution panels and circuit breakers available in an electrical closet, with capacity at 277/480 volt and 120/208 volt, 3-phase, 4-wire providing 7 watts per USF.</p> <p>Designated connection point to the central fire alarm system for extension to tenant-demised areas.</p> <p>Distribution backboard within a wire closet for connection to tenant's telephone lines. Vertical conduit (empty sleeve) through building core, available for tenant wiring and cabling.</p>	<p>Central heating, ventilation, and air conditioning (HVAC) systems are installed and operational, including, as appropriate, main and branch lines, variable air volume boxes, dampers, flex ducts and diffusers, for open office layout. Conditioned air through medium pressure ductwork at a rate of .75 cfm per square foot of usable area is provided.</p> <p>Sprinkler mains and distribution piping in a protection layout (open plan) with heads turned down, concealed with an escutcheon or trim plate, are installed.</p>

Design intent drawings (DIDs) are included in the shell requirements for leases as part of the shell rent. DIDs are layout line drawings showing partitions and doors; schematic demolition; voice, data, and electrical outlet locations; finishes; generic furniture layout, and any additional details necessary to communicate the design intent to the lessor's architect for the purpose of preparing the construction documents. DIDs do not contain mechanical, electrical, or plumbing specifications or drawings. They do not include furniture or computer and telecommunication specifications, nor do they contain signage, artwork, keying, or hardware schedules.

An initial submission of the DIDs plus two onboard reviews are included in the shell rent. If the tenant agency requests any of the following items, they must be funded with an RWA:

- Additional iterations of layout drawings
- Specification and finish schedules for furniture and equipment (i.e., personal property)
- Extensive program development, such as detailed performance specifications and cost estimates for specialty-type spaces such as laboratories, conference centers, and computer facilities.

### 2.4.2. Structure of Rent

The Rent charged to the tenant agency is a passthrough of the underlying PBS lease contract rent, plus:

- any standard operating costs not performed through the lease (see section 2.6)
- the PBS lease fee (see section 2.15)
- PBS-funded BSAC security enhancements, if applicable (see section 2.9.2.B)
- GSA-installed improvements (see section 2.8)

PBS' practice is to procure fully serviced leases, although exceptions to this practice are allowed. Both the operating costs and the real estate taxes that PBS pays to the lessor as part of the lease are passed through to the tenant agency—see sections 2.6 and 2.7 for details.

Some leases in the PBS portfolio have been identified as portfolio leases, in which the leased space is priced as federally owned space using fair annual rent appraisals as described in Chapter 3, Pricing in Federally Owned Space. Previously designated portfolio leases will remain unchanged for the term of the lease. Any future

deviations from the basic passthrough pricing structure of leases must be approved by the PBS Office of Real Property Asset Management well in advance of signing a lease contract.

### 2.4.3. Adjustments for Failure to Perform

In the course of enforcing performance requirements set out in a lease contract, PBS may make a rent reduction or withhold rent from a lessor. These deductions are not passed along to the tenant agency, since they are usually needed to cure the lessor's nonperformance. If the lessor's nonperformance results in PBS assuming some continuing responsibility for the leased space (e.g., PBS takes over the cleaning of the tenant agency space), then PBS will continue to honor the operating costs in the tenant agency's OA until the tenant agency has time to budget in the next Rent Estimate cycle or until the lessor resumes performance at the lease rate.

## 2.5. Pricing Standards – Tenant Improvements

### 2.5.1. Tenant Improvements Definition

TIs are the finishes and fixtures that typically take space from the shell condition to a finished, usable condition. The resulting space is complete, meets applicable building codes, and meets the tenant agency's functional needs.

It is commonplace for lessors to define building standards for TIs (such as glass or solid wood for suite entry doors, a restricted color palette for paint and carpeting, a certain kind of blind for exterior windows). The existence of building standards does not mean that the lessor covers these as part of building shell—they are still TIs. The standards simply represent restrictions on what the tenant agency can elect to do within the tenant space.

Similarly, standards identified in design guides for land ports of entry, courthouses, and other federal facilities are not part of the building shell simply because they are called “standards.”

### 2.5.2. Typical Tenant Improvements

TIs include:

- Electrical wiring, outlets, and horizontal conduit, including cable trays and hooks, within the tenant agency's demised premises and to the building core. Telephone jacks, data

jacks, and horizontal conduit, including cable trays and hooks, within the tenant agency's demised premises and to the building core. (Telephone and computer wiring and cabling may be funded within the TI allowance or provided by the tenant agency.)

- Carpeting or other floor covering; raised access flooring.
- Plumbing fixtures within the demised premises and all lines connecting to the building core—except for common bathrooms.
- Partitioning and wall finishes.
- Doors (including suite entry), sidelights, frames, and hardware.
- Millwork.
- Fire alarm wiring from building core to tenant agency space and then within tenant agency space; pull stations; strobes; annunciators; and exit signage within the demised premises.
- Thermostats.
- Window treatments.
- Supplemental power, cooling or heating (above the open office plan layout capacities provided in the base building); higher rates of air exchanges (if it entails additional or upgraded air handling equipment); pathogen control systems; and all other special HVAC components required by specific tenant agency needs, and tenant agency program equipment (such as fume hoods and exhaust systems).
- Adjustment or repositioning of sprinkler heads to avoid conflict with tenant agency's particular office partition layout; additional sprinklers required by local code to meet tenant agency's layout, or ceiling grid adjustments and consequent repositioning of sprinkler heads to the center of ceiling tiles.
- Tenant agency signage in the common corridor and within the tenant agency's leased area. (An overall tenant directory in the building lobby is part of building shell.)
- Changes (moves) or additions to the open-plan lighting pattern, or to the open-plan HVAC distribution network (e.g., additional ductwork, ceiling diffusers) to accommodate individual office layout.
- Upgrades or changes to building standard items, such as plaster or vaulted ceilings, specialty lighting, and upgraded ceiling tile.

- Structural enhancements to base building to support unconventional floor loads, such as a library.
- Private bathrooms, private elevators, or staircases within tenant agency space specifically requested by the tenant agency for its use.

### 2.5.3. Tenant Improvement Allowance

The TI allowance is the funding source that enables the space to be built out for occupancy to meet a tenant agency's specific requirements. To accommodate the varying space needs of tenant agencies, the TI allowance has two components—general and customization, defined in sections 2.5.4 and 2.5.5, respectively.

The TI allowance:

- Provides tenant agencies with flexibility, choice, and savings incentives
- Is commonplace in the commercial real estate market
- Allows both PBS and lessors to budget more reliably, since respective obligations are defined at the outset
- Enables separate treatment of TI costs in the Rent, allowing clear tracking of amortizations
- Helps PBS and tenant agencies comply with appropriations law and with the Office of Management and Budget (OMB) requirement that PBS set limits on amounts that can be amortized in Rent

The following provides information on the specific application of the TI allowance to different space assignments.

- **Initial occupancies** (including expansions) – these assignments are new to a specific tenant agency in new space that is in shell/first generation condition. (See the next point on backfill occupancies for relet/second-generation space.) For initial occupancies, PBS is obligated to provide the full TI allowance (both the general and customization components) in accordance with the tenant agency's assigned tier or functional space estimates—see sections 2.5.6 and 2.5.7. Tenant agencies may not buy down the general allowance in first generation space through use of an RWA; to do so would be an improper augmentation of PBS' appropriation. See section 2.5.10.A for lump-sum payment options available to tenant agencies that want to minimize their TI rent obligation.
- **Backfill occupancies** – these assignments occur when PBS has existing, built-out space (relet/second-generation space)

that is vacant and available for a new tenant agency. The full TI allowance or functional space estimate may be provided subject to the availability of PBS funds. See section 2.2.3 for more details on pricing flexibility in backfill occupancies and section 2.5.10.A for lump-sum payment options available to tenant agencies that want to minimize their TI rent obligation.

- **Midoccupancy/postinitial occupancy request for TI** – these assignments occur during the occupancy term outlined in the OA. PBS is not obligated to provide a tenant agency a TI allowance at any time during the occupancy term after initial space alterations are complete. Tenant agency-initiated space changes, replacements, or enhancements after initial occupancy during the same OA term are typically funded by the tenant agency. Subject to funds availability, PBS may fully or partially fund and amortize a tenant agency request for TIs. If funded by the lessor, the TIs are typically amortized in the lease, and if funded by PBS, the TIs are amortized and billed as GSA-installed improvements.
- **Continuing occupancies** – these are assignments beginning a new OA term upon the expiration of a prior OA term in the same space. PBS offers the tenant agency up to the full TI allowance or functional space estimate set in accordance with sections 2.5.6 and 2.5.7.



**Note:** The TI allowance is set in accordance with the tenant agency's tier (see section 2.5.6) or based on a cost estimate to provide functional space (see section 2.5.7). The TI allowance for warehouse buildings is set differently (see section 2.5.13).

#### 2.5.4. General Component of Tenant Improvement Allowance

The general component is a dollar amount per USF set to cover the cost of typical office space finish components such as doors, partitions, carpeting, electrical and telecommunication outlets, or other standard “work letter” items. The general component, currently \$38.95 per USF, takes the space from shell to “vanilla” office space. This allowance is set nationally and indexed to local construction costs. The general TI allowance is provided to all prospective tenant agencies in initial occupancies. (See section 2.5.10.B for a discussion of the general allowance in relet space.)

The PBS Office of Real Property Asset Management annually reviews the general allowance for Washington, D.C., the index city, and issues a new rate if market conditions warrant. The general allowance is adjusted for other major cities and localities by multiplying the index city amount by the appropriate local construction cost factor. The local construction index is also reviewed each year and adjusted only when it is determined the index has increased.

### 2.5.5. Customization Component of Tenant Improvement Allowance

Like the general component of the TI allowance, the customization component is also a dollar amount per USF, but it is tailored to individual tenant agencies. This component is intended to cover special items, preparations, or finishes that are not typical to all office space, but are necessary to customize the space for a particular tenant agency. The customization component takes the space from vanilla office space to space specifically designed to function for a particular tenant agency. Examples of customization items include custom cabinetry or millwork, laboratory countertops and fume hoods, private restrooms, raised access flooring, upgraded ventilation for high occupancy uses, slab-to-slab walls, broadcast quality lighting, and sound attenuation.

PBS has created a series of customization tiers—tier 0 to tier 6. Each tier is equal to one-tenth of the value of the general allowance. Tier 1 is 10 percent above the general allowance, tier 2 is 20 percent above the general allowance, and so on. Each tenant agency and bureau is assigned a tier based upon a computation that takes the blended average of the cost to PBS to construct all space assigned to that tenant agency or bureau. The blended average is not an attempt to cover all costs, but to provide equivalent value for what PBS had provided under the previous pricing practice. The establishment of general and customization allowances is not intended to eliminate the need for lump-sum RWA payments. See section 2.5.12 for procedures to raise a tenant agency's tier.

Customization allowances are not adjusted because they are a percentage of the general allowance, which is already adjusted for inflation and indexed to local construction costs. Adjustments to the general allowance automatically translate into proportional adjustments to the customization allowance.



**Background Note:** In 1996, PBS established the customization tiers through an analysis of all space assigned at

that time. The analysis considered the various space classifications and their construction cost multipliers to develop a blended average. The blended average represented what PBS would have spent to build out a particular tenant agency's space. The blended average did not include what the tenant agency might have funded through lump-sum RWA payments. The calculation of a customization tier for each tenant agency replaced, in the form of a monetary allowance, what PBS previously provided as standard alterations for a set of special space classifications.

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### 2.5.6. **Setting the Tenant Improvement Allowance by Tenant Agency Tier**

Follow these steps to set the general and custom TI allowance based on the tenant agency's tier:

1. Determine the general allowance as indexed for the metropolitan area for the proposed lease project.
2. Look up the tenant agency's customization tier in the OA Tool.
3. Using the customization tier, determine the tenant agency's customization allowance, based on the indexed general allowance.
4. Add the customization allowance to the indexed general allowance for a total TI allowance.
5. Multiply the total TI allowance by the USF to be assigned to the tenant agency.

For a lease with multiple tenant agencies, set the TI allowance separately for each tenant agency.

### 2.5.7. **Setting the Tenant Improvement Allowance by Functional Estimate**

The general and customization TI allowances are not to be used for projects when the following are available:

- An extensive development of a space program of requirements (POR) for the tenant agencies; and
- PBS cost estimates (using established national benchmarks or other measures that determine the cost estimate for functional tenant space based upon that POR).

For these projects, the TI allowance is set in accordance with the benchmarks or cost estimates described above. Functional

estimates are also applicable when a particular block of space is not typical for a tenant agency and additional buildout is required to meet the functional needs of that space type.

In the case of nonprospectus projects, an extensive development of space POR or benchmarks may not be available. However, PBS is to provide the tenant agency with physical functional space that meets its operational needs, based on PBS' cost estimates. This still requires providing a monetary allowance so that the tenant agency can make choices between buildout elements, as long as the space is finished, functional, and compliant with all applicable building codes.

The standard for determining the revised TI allowance is that it covers the cost of basic functionality (operational requirements) for the specific space's use. The standard applies whether PBS contemplates a revision to a TI allowance in accordance with benchmarks or a cost estimate to deliver functional space, or as a consequence of a tenant agency request. The standard is not based on the total cost of TIs. The distinction is functionality versus finish, fixture, and feature enhancement. The OMB Circular A-11 restrictions relating to the value of features and enhancements that are built or added for the government's unique needs or special purposes still apply—see section 2.5.11. PBS is not obligated to ensure that all aspects of a tenant agency's design guide or design guidelines are incorporated into the TI allowance. A tenant agency's design guide typically provides for a wide degree of latitude in the selection (and value) of finishes and fixtures for tenant space. PBS does not accept design guides as a substitute for the benchmarking process or the judgment of regional portfolio directors in setting allowance levels.



**Note:** If the revision to the TI allowance as described above results in an increase to the amount of the TI allowance set by the tenant agency's tier, a regional pricing deviation is required defining the basis for the adjusted TI allowance.

### 2.5.8. Amortization of Tenant Improvement Allowances

For tenant agency occupancies in leased space, PBS negotiates with the lessor to amortize the TI allowance expended in Rent. The resulting amortization cost is passed through to the tenant agency in the OA.

There are two rules for limiting amortization terms for TIs:

1. The amortization term must not exceed the economic life of the improvements.
2. The amortization term must not exceed the term of the OA (see below for exception).

The amortization period is usually the firm term of the lease. In some cases, lessors (with PBS and tenant agency agreement) may agree to amortization terms that are less than the lease firm term. In other cases, lessors (with PBS and tenant agency agreement) may be willing to take the risk of amortizing the TI over a term that is longer than the lease. Extending the amortization term beyond the lease firm term is permitted, as long as there are no lump-sum costs due if PBS exercises termination rights in the lease (if they exist) or leaves at the end of the lease term.

Multiple amortization periods can be entered into a tenant agency's OA within the OA Tool, but this is done in special cases only (such as phased projects). The amortization must follow the two rules above for limiting amortization terms and must be based on the terms and conditions in the lease.

The interest rate for the TI allowance amortization is negotiated between the successful offeror and PBS.

### 2.5.9. **Application of Tenant Improvement Allowances**

Sections 2.5.4 and 2.5.5 describe the individual TI allowance components (general and customization) and how they are formulated. This section describes how the components are used by tenant agencies to fit out their space.

Since the tenant agency elects how its space is to be finished, the tenant agency controls the costs of the buildout. If an amount less than the allowance limit is used, the resulting Rent payment is lower. If the full allowance is not used for initial buildout, it is no longer available for future buildout needs. PBS does not monitor the use of the TI allowances to ensure that the general component is used only for office-type finishes and the customization component only for specialty work. The sum of the two components represents the funding available for the buildout the tenant agency elects, as long as the space is finished, functional, and compliant with all applicable building codes.

The TI allowance (general and customization components) may be used only to pay for items that are real property, or which become real property when attached or affixed to the building. The TI

allowance is not available to fund personal property such as furniture, microwaves, refrigerators, artwork, personal computers, audiovisual equipment, televisions for conference rooms, phone handsets, or physical relocation expenses of personal property. PBS lacks the authority to use budget activities that fund the TI allowances for personal property purchases. Modular wall systems that serve as the functional equivalent of drywall partitions and belong to the building owner at the end of the occupancy term may be purchased with the TI allowance.

Tenant agency-driven enhancements to the building shell are, by definition, TIs, not shell elements. If a tenant agency wants to enhance the building shell, such as upgrading the HVAC, adding an elevator, increasing floor loads, or using specialty lighting in tenant areas instead of the building standard fixtures, these costs are chargeable to the tenant agency's TI allowance.

Temporary "office hoteling" leases are an exception and are not provided a TI allowance. Office hoteling space is leased "as is." Furniture, artwork, phone equipment, and personal computers provided by the lessor in office hoteling leases are not considered personal property. It is customary for this type of space to include these amenities. Office hoteling leases may not exceed 18 months. The furniture, artwork, phone equipment, and personal computers remain with the property when the lease terminates. In addition, it is customary for phone service and internet access to be provided by the lessor in office hoteling space. The office hoteling amenities may be included as part of base shell rent or operating rent in a temporary office hoteling lease according to the standard practice of the office hoteling vendor.

In the case of initial or backfill occupancies, space planning services through design development, and services provided by construction management (CM) firms hired for design development review are not to be applied to the TI allowance. These services are provided by the lessor as part of the shell rent. After completion and approval of the DIDs, the completion of the construction documents is charged against the TI allowance.

In the case of other occupancies where the lessor provides a TI allowance, all soft costs (space planning, design, and CM) as well as hard costs (labor, materials, general conditions, overhead, and profit for the general contractor and subcontractors) are charged against the TI allowances. (See section 2.2.2 for further information.)

Tenant agency-driven security features may be funded through the TI allowance as outlined in section 2.5.11. BSAC items are a separate capital investment in the property. This separate security investment is not included in the building shell or in TIs

for allowance or rate setting purposes, as discussed in section 2.9.2.B.

### 2.5.10. Lump-Sum Payment Options for Tenant Improvements

In limited circumstances, tenant agencies may make lump-sum payments that effectively lower or replace the TI allowance. This option is available only at the beginning of the assignment. Tenant agencies must fund any buildout costs above the TI allowance through a lump-sum RWA payment.

#### A. Lower or Zero Customization Tier

If a tenant agency elects to waive or set the customization allowance lower than what PBS would otherwise provide the tenant agency, whether using the customization tier allowance or an estimate of functional space, the following requirements apply:

- The tenant agency request for a lower or zero customization tier must be made before the amortization of the TIs is established in the lease or SLA.
- The tenant agency may elect to lower the allowance to any value between its assigned customization tier and the general allowance amount.
- The tenant agency's election of a lower TI allowance must be recorded in the OA.
- Once the tenant agency elects a lower TI allowance amount, the amount is fixed.

#### B. Relet Space

Relet space is second-generation space that already has TIs installed for a prior tenant. This commonly occurs in backfill space when the space is already finished with complete TIs in place. If the tenant agency can substantially use the existing buildout without major modification, then the tenant agency may pay lump sum by RWA to modify the space. As a result, the tenant agency waives all or any part of the general TI allowance. This is allowed because TIs are pre-existing, and the rental rate for the space reflects these improvements (i.e., it is an as-is rate). Therefore, PBS has fulfilled its appropriation

obligation to provide the tenant agency with the general component of its space. The choice is the tenant agency's.

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**Note:** If the pre-existing TIs in the relet space are to be substantially or entirely demolished to make way for new TIs, then the tenant agency may not invoke the right to waive the general allowance. The space will be returned to shell condition before new buildout takes place. In such cases, PBS is required to furnish the tenant agency with the general allowance at a minimum. Tenant agencies may not buy down the general allowance under these conditions, as this would constitute an improper augmentation of PBS' appropriation.

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### C. Restrictions on Lump-Sum Payments

Lump-sum payments are subject to the following restrictions:

- PBS does not allow tenant agencies in midoccupancy term to make lump-sum payments for TIs already being amortized. Tenant agencies may not use end-of-year money to reduce future Rent obligations. At the beginning of an assignment, PBS may use the lump sum to pay the lessor; however, midoccupancy lump-sum payments rarely effect corresponding pay down with the lessor. Since PBS usually cannot buy down improvements with the lessor once occupancy begins, the direct parity between what PBS bills the tenant agency and what PBS pays the lessor would be lost.
- PBS does not accept lump-sum payments to defray future-year ordinary Rent obligations, since these constitute prepayment of Rent. Most tenant agencies are barred by fiscal regulation from using current year funds to meet a future year's obligation.
- PBS does not accept lump-sum funding to defray the cost of capital expenses that are inherently PBS' to pay; to do so would constitute an improper augmentation of PBS' appropriation. Therefore, PBS may not accept lump-sum payments from tenant agencies for building shell elements. Tenant agencies may buy down their customization tiers and they may pay lump sum for enhancements to building shell because these enhancements are, by definition, TIs.

PBS may accept lump-sum payments for TIs on only four occasions as outlined in the following table:

**Table 2-3. Lump-Sum Payment Options for Tenant Improvements**

Timing of Lump-Sum Payment	Requirement	Payment Method
At assignment inception	PBS allows the tenant agency to use lump-sum payments to lower the TI and/or to cover TI costs above the TI allowance	Above the TI allowance – RWA For relet space, any part of the allowance – RWA (see section 2.5.10.B for additional detail on relet space)
At the time a tenant agency exercises its right to release space back to PBS	PBS requires a lump-sum amount equal to the outstanding balance on the TIs that PBS has been amortizing in the Rent	Rent through OA Tool
At any time during the OA term in which the tenant agency wants reimbursable space changes	PBS requires tenant agencies to fund, in full and in advance, the cost of space changes to an existing assignment	RWA
When an expanding tenant agency displaces another tenant agency	PBS requires the forcing tenant agency to pay PBS for the unamortized balance of the TIs of the displaced tenant agency	Rent through OA Tool

Certain lump-sum payments must be made using Rent through OA Tool rather than by RWA. This is necessary because the budget accounts (BA51, BA53, BA54, and BA55) from which PBS normally covers the expense associated with payment are not reimbursable accounts, they are accounts funded by tenant agency appropriations paid to PBS in the form of Rent. Simply stated, any expense that PBS would normally cover from its revolving fund is paid for by tenant agencies through Rent; any expense for which PBS did not budget (e.g., above the allowance limit) is paid for by tenant agencies through RWA. Consequently, the lump-sum payments to buy down the Rent below a tenant agency's customization tier after the allowance is set must be credited to the FBF.

With newly leased space, PBS expects to amortize these lump-sum payments up to the allowance limit and pass through the periodic

payments to the tenant agency. However, if the tenant agency elects to buy down the Rent by paying a lump sum for any or all of the customization component of the tenant allowance, then PBS pays the lessor from the BA53 account. PBS then has an offsetting receipt from the tenant agency. Tenant agencies are billed Rent through OA Tool.

As of fiscal year 2001, PBS secured authority to make lump-sum payments for TIs in leased space with BA53 funds. This can only be done at lease inception and when the tenant agency submits the lump-sum payment for any portion of the allowance to PBS, who then submits it to the lessor. This payment can apply to both initial and expansion space, and for initial TIs for all situations in which the tenant agency pays by lump sum. This allows tenant agencies to avoid amortization costs and lower Rent payments for TIs.

### 2.5.11. Application of OMB Circular A-11 Appendix B to Specific Space Actions

The 2003 changes to the OMB Circular A-11 Appendix B introduced the requirement to apply a specific set of rules and processes to each space or project type (i.e., leased and owned, prospectus and nonprospectus) as it relates to the value of features and enhancements that are built or added for the government's unique needs or special purposes. Leased project types and their specifics are outlined below.

#### A. Prospectus – Leased

- The TI allowance is to be set in accordance with the benchmarks or cost estimates to provide functional space. It is not based on the tenant agency's tier.
- Total full-service rent may not exceed the high-end market rent. High-end market rent is determined at the regional level through a review of comparable leases in the vicinity of the proposed lease and/or a review of published market data. If comparable leases or published market data do not exist, high-end market rent is determined by a feasibility rent analysis for general office space. The regional appraiser assists with this analysis. OMB must concur with PBS' determination or the prospectus will not be approved.

- Security-related tenant buildout unique to a tenant agency such as holding cells, sally ports, and special shielding to prevent electronic eavesdropping, which, if financed through the lease would result in a rental rate beyond the high end of the market, must be funded lump sum via RWA. Additionally, if the cost of these items can be financed through the lease and remain under the high end of the market cap and the OMB-approved rental rate, OMB reserves the right to review and determine if these items are considered unique to the government's needs or special purposes. If OMB determines the items are unique to the government's needs or special purposes, lump-sum funding is required from the tenant agency. If these items are financed through the lease, they are considered to be TIs.
- Building-specific security countermeasures proposed to meet Interagency Security Committee (ISC) design criteria need not be funded lump sum. They may be financed through the lease as long as their inclusion does not push the total rent over the OMB-approved rental rate. The countermeasures must be clearly separated from the shell and TI. These items are billed as Building-Specific Security–Amortized Capital.

## B. Nonprospectus – Leased

- The TI allowance is to be set in accordance with the tenant agency's tier or based on a cost estimate to provide functional space.
- Total full-service rent may not exceed the high-end market rent. High-end market rent is determined at the regional level through a review of comparable leases in the vicinity of the proposed lease and/or a review of published market data. If comparable leases or published market data do not exist, high-end market rent is determined by a feasibility rent analysis for general office space. The regional appraiser assists with this analysis. Documentation must be included in the lease file.
- Security-related tenant buildout unique to a tenant agency such as holding cells, sally ports, and special shielding to prevent electronic eavesdropping, which, if financed through the lease, would result in a rental rate beyond the high end of the market or the prospectus limit,

must be funded lump sum via RWA. If these items are financed through the lease, they are considered to be TIs. The amount of lump-sum reimbursement is the dollar value of the TIs that, if amortized, would push rent over the lesser of the high-end market cap or the prospectus dollar limitation. PBS gives tenant agencies adequate time to budget for reimbursable expenditures for ongoing lease procurements. This requirement became effective on October 1, 2006.

- Building-specific security countermeasures proposed to meet ISC design criteria need not be funded lump sum. They may be financed through the lease as long as their inclusion does not push the total rent over the lesser of the high end of the market cap or the prospectus dollar limitation. The countermeasures must be clearly separated from the shell and TI. These items are billed as Building-Specific Security–Amortized Capital.



**Note:** A tenant agency may not pay lump sum for shell and first generation general tenant allowance elements (see section 2.5.10). Also, if a cost estimate is used to determine the allowance, PBS must deliver basic functional space without tenant agency lump-sum payments. If basic functional space cannot be delivered below the prospectus dollar limitation, prospectus authority must be sought.

### 2.5.12. Changing or Appealing a Tenant Agency Customization Tier

PBS assigned each tenant agency, by agency/bureau (A/B) code, to a specific customization tier based on the entire agency's space holdings with PBS (blending office with other types of usage). Consequently, a tenant agency's customization tier may not be adequate to provide functional buildout for a predominantly special-purpose use. Similarly, for a new, predominantly office space use, the general and customization allowances may provide more funding than the tenant agency needs to build out the office space. PBS accepts that, since the allowance tiers were designed to fund a blend of space types (average for each tenant agency), individual requirements occasionally arise for which the assigned customization tier is inadequate. Regional portfolio directors have the authority, on a case-by-case basis, to raise the tier or otherwise increase the TI allowance when the unusual buildout needs of a proposed occupancy so warrant, or appropriate documentation and

information is available to determine the allowance needed to provide functional space. This action must be documented in a regional pricing deviation.

If a tenant agency determines that its assigned nationwide customization tier is inadequate to meet its buildout needs, it may appeal its tier level to the PBS Office of Real Property Asset Management. Tier level appeals must demonstrate, through an analysis of several occupancies that the tenant agency or bureau's tier level allowance is consistently and materially less than what is required to provide functional space. An appeal of a tenant agency's tier level is not a Rent appeal and does not follow the Rent appeal process.

### 2.5.13. Tenant Improvement Allowances for Warehouses

The TI allowance for warehouses is reduced to 20 percent of the general allowance as adjusted for locality. If the TI allowance is to be used to construct offices or other habitable or conditioned spaces within a warehouse building, then the TI allowance is to be used to construct **all** the shell and TIs necessary for that office (or other use). In the market, space in warehouse buildings is priced differently than general purpose space in office buildings. The lessor is compensated for traditional office shell elements in warehouse buildings by charging all of the costs of the office buildout to the TI allowance. The amortization of these TI costs in the Rent returns to the lessor the capital invested in the nonwarehouse buildout.

## 2.6. Pricing Standards – Operating Costs

The operating costs that PBS pays to the lessor are passed through to the tenant agency. Operating cost adjustments in leases are usually tied to the Consumer Price Index, Urban Wage Earners and Clerical Workers (CPI-W). When PBS adjusts payment to the lessor, the tenant agency's Rent is also adjusted.

Standard utility services included in the operating rent are based on a one-shift office operation, Monday through Friday, excluding federal holidays. PBS provides a consistent heating or cooling temperature for one shift (minimum of 10 operating hours). If the local market practice provides standard HVAC hours that exceed 10 hours (and/or Saturday hours), additional reimbursement is not required and the lease must state the building's normal operating hours.

Daytime or after-hours cleaning is stipulated in the lease based on tenant agency preference and considered a standard service; therefore, reimbursement from the tenant agency is not required.

The following above-standard or enhanced operating services may be included in the lease; however, the costs are to be separately identified from the operating rent in the lease contract. Those costs are passed through to the tenant agency as a reimbursable payment.

- HVAC and other utility services outside the normal hours as specified in the lease, commonly called overtime utilities, e.g., where the tenant agency's requirement is to operate the building's HVAC system 24 hours a day, the utility costs are reimbursable above the normal hours stated in the lease.
- Maintenance of tenant agency program equipment.

Although above-standard services may be included in the lease, the tenant agency must pay PBS as a reimbursable payment, either with the traditional RWA process or through OA Tool. OA Tool RWA billing is applicable only to recurring RWAs when the cost of the service is identical each month. The process regarding OA Tool billing of recurring reimbursable services is in section 2.12. Regardless of the payment mechanism, above-standard services are reimbursable expenses. Tenant agencies may not pay for above-standard services with their Rent account (OMB Object Class 23.1).

Some leases are not fully serviced, and some standard level operating costs, such as cleaning, utilities, and maintenance and repair, are provided by PBS for the tenant agencies through separate service contracts. The cost of the standard level of service obtained through these contracts must be billed to the tenant agency through the OA, and may not be billed through an RWA. Within the OA Tool, it is possible to see the difference between the operating rent (services provided within the lease) and other contract services (services provided by PBS by separate contract). These services are included as part of the operating costs rate shown on the financial summary of the OA. Other contract services are escalated at the beginning of the fiscal year and not on the lease anniversary.

## 2.7. Pricing Standards – Real Estate Taxes

Real estate taxes are passed through to the tenant agency in the Rent. The tenant agency pays its proportionate share of the annual tax based on its percentage of occupancy, and for partial years, the number of months the space has been occupied. The base-year real estate tax is included in the Financial Summary in the OA under Real Estate Tax.

Real estate tax adjustments are made based on the local municipality's tax year. PBS computes the appropriate tax adjustment upon receipt of the lessor's actual tax bills. A commensurate adjustment is made to the tenant agency's Rent through the OA. This adjustment takes the form of a one-time charge or deduction.

At the end of the lease term and any subsequent extensions or renewals of the firm term ("total term"), a final tax reconciliation may be necessary with all tenant agencies who had occupancy during the term.

If real estate taxes decrease from the base year, the reduction is passed through to the tenant agency.

## 2.8. Pricing Standards – GSA-Installed Leasehold Improvements

PBS collects an annual Rent charge for any building improvements in leased space funded by PBS (typically using BA54 funds). This charge is calculated in the same manner as TIs in owned space, amortizing the initial buildout cost over the lease term.

To amortize GSA-installed improvements, calculate the annual payment to amortize the cost of the improvements over the initial lease firm term at the federal (not the lease) TI amortization rate set by PBS Central Office (see section 3.6.8). When amortizing GSA-installed improvements, use the amortization rate in effect when the TIs are installed.

## 2.9. Pricing Standards – Security



**Note:** PBS is in the process of renegotiating the 2006 DHS/GSA Memorandum of Agreement (MOA). Once the new MOA is finalized, portions of section 2.9 will be revised, as necessary.

Sections 102(b) and 422 of the Homeland Security Act of 2002, Public Law 107-296 (Nov. 25, 2002), 6 U.S.C. 112(b) and 6 U.S.C. 232 respectively, transferred the Federal Protective Service (FPS) from GSA to the Department of Homeland Security (DHS). In accordance with the Homeland Security Act, FPS provides security and law enforcement services to facilities under the jurisdiction, custody, or control of PBS through an MOA. The current MOA became effective June 1, 2006.

There are three types of security items and charges outlined here and fully defined below:

1. Basic security and building-specific security are provided and billed to tenant agencies by FPS.
2. Building-specific security defined as BSAC charges are for building-specific security fixtures that are funded by PBS and billed to tenant agencies by PBS.
3. Tenant-specific security is funded directly by the tenant agency with an RWA to PBS or security work authorization (SWA) to FPS, depending on the type of security provided.

### 2.9.1. Basic Security

As stated in the MOA Section 11-Pricing Provisions for Security Services, Item A, Basic Security:

"Basic security charges are billed by DHS (ICE/FPS) to all tenants in GSA-controlled space. DHS (ICE/FPS) is responsible for notifying agencies of this rate. GSA will pay DHS (ICE/FPS) the basic security rate only for GSA-occupied space, vacant space in occupied buildings, and out-leased space."

Basic security for vacant buildings is to be provided and funded on a case-by-case basis as determined between the regional FPS and PBS offices.

The basic security charge is developed by FPS and approved by OMB.

As outlined in the MOA, Section 7-Services Provided by DHS (ICE/FPS), Item A, Basic Security, basic security includes the following:

- Law enforcement – patrol and response, criminal investigations
- Megacenter operations – security alarm monitoring and dispatch
- Building security assessments and prelease security surveys – identification of risks and countermeasures
- Security consultation – new construction, major repair and alteration projects, leasing
- FSC participation
- Security assistance – occupant emergency plans (OEPs) and continuity of operations (COOP) planning
- Background suitability determinations for childcare workers

### 2.9.2. Building-Specific Security

Through security surveys and consultations provided under Basic Security, FPS recommends building-specific countermeasures, including contract guards, security equipment, and security fixtures that mitigate security vulnerability. These countermeasures are implemented, as appropriate, in coordination with the FSC, which includes the federal tenant agency representatives, an FPS representative, and PBS representatives.

### A. Building-Specific Security Charge - FPS

Building-specific security charges are for items funded by FPS that include contract guards and security equipment. Equipment is defined per the MOA Section 7-Services Provided by DHS (ICE/FPS), Item B.2.-Security Equipment, as:

“...a security-related item that is not part of a building and easily removable from the building. Security equipment includes, but is not limited to, x-ray machines, magnetometers, closed-circuit television systems and cameras, and intrusion and duress alarm systems. DHS (ICE/FPS) will be responsible for project execution, maintenance, and repair of security equipment.”

As stated in the MOA Section 11-Pricing Provisions for Security Services, Item B.1, Building-Specific Security, with the exception of BSAC charges:

“Building-specific security charges are billed by DHS (ICE/FPS) based on the program costs of DHS (ICE/FPS) for each building or complex and prorated to each tenant by its total occupied space in the building or complex. DHS (ICE/FPS) is responsible for notifying tenant agencies of these charges. GSA will pay DHS (ICE/FPS) only for building-specific security in GSA-occupied space, vacant space in occupied buildings and out-leased space. Building-specific security for vacant buildings will be provided and funded on a case-by-case basis as agreed to by the regional DHS (ICE/FPS) and GSA (PBS) offices.”

### B. Building-Specific Amortized Capital Charge - PBS

The BSAC charge is for security items that are a separate capital investment in the leased property. They are separately priced, identified in the OA, and when funded by PBS or the lessor, are charged to tenant agencies on their PBS Rent bill as BSAC. This separate security investment is not included in the building shell or TIs for allowance or rate setting purposes. For lease rates to compare favorably to local market rates, it is important to separate the BSAC charges from the shell rent.

Security fixtures are identified in the MOA Section 7-Services Provided by DHS (ICE/FPS), Item B.3, Security Fixtures:

“A security fixture is defined as a physical security measure that is part of the building or attached and not easily removable from the building. Security fixtures

include, but are not limited to, vehicular barriers such as bollards, gates, pop-up and arm gates, doors, locks, garage doors, parking lot fencing and gates, guard booths (both attached to the building and free standing), and blast-resistant windows. Card readers that serve solely as a locking mechanism at the building entrance are also considered fixtures.”

Window glazing and progressive collapse are other examples of security fixtures.

For leases, the BSAC charges and the amortization rate are negotiated with the lessor. The amortization rate is usually the same rate applied to the TIs, and BSAC charges are normally amortized over the firm term of the lease. If the lessor proposes a longer amortization term, the lessor assumes the risk of the unamortized BSAC in the event PBS terminates the lease. The lessor is also responsible for maintenance of security fixtures and equipment and those security costs are included in the BSAC charge.

Security fixtures funded by PBS in a lease are recovered via the Rent on the BSAC billing line following the same logic as the federally owned improvements—see section 3.10.2.B.



**Note:** Refer to section 2.5.11 for additional security guidance. That section covers the rules and processes for each space or project type as it relates to the value of features and enhancements that are built or added for the government's unique needs or special purposes and related directly to security fixtures.

### 2.9.3. Tenant-Specific Security

Tenant-specific security items are security fixtures, equipment and features that are specific to one tenant agency, requested by that tenant agency and its internal security guidelines and not used in the entire building. The tenant agency funds these security items. See section 2.5.11 for reference to times the lessor may be able to provide tenant-specific security items in the lease.

As stated in the MOA Section 7-Services Provided by DHS (ICE/FPS), Item C, Tenant-Specific Security:

“Tenant-specific security includes additional, reimbursable services and equipment for agencies to meet their HSPD-12 requirements, which include card readers and contractor background suitability determinations. Tenant-specific security also includes other requirements, such as agency-

specific contract security guards and the design, purchase, installation, and maintenance of optional security equipment and fixtures. When resources permit, DHS (ICE/FPS) (or GSA for fixtures) may provide these types of services upon receiving funds from the requesting agency. When the work is accomplished by DHS (ICE/FPS), it will coordinate with the GSA property manager and make any necessary repair for damage to tenant space or the building caused by, or incidental to, installation, maintenance, repair, removal, and replacement of security equipment.”

For more information regarding security items requiring funding by tenant agencies, refer to section 2.5.11.

## 2.10. Pricing Standards – Billing Adjustments

A billing adjustment is a specific financial adjustment (either addition or reduction) included on a tenant agency’s Rent bill. Real estate tax escalations and broker commission credits are examples of billing adjustments.

## 2.11. Pricing Standards – Antennas

For purposes of pricing, an antenna is any device of a federal agency located on a leased building, which can be used to transmit and/or receive electromagnetic signals. Antennas are devices for the transmission, relay, or reception of television, AM or FM radio, cell phone, or microwave signals.

PBS does not charge for antennas on leased properties unless the lessor is charging PBS, in which case the lease charge is passed through to the tenant agency.

## 2.12. Pricing Standards – Reimbursable Services

This PBS Rent bill component is used to recover the cost of reimbursable services that are above standard operating expenses. OA Tool can be used to recover expenses when the cost of the reimbursable services rendered to a tenant agency is identical from month to month. The reimbursable recurring services billed through OA Tool are limited to:

- Overtime utilities
- Enhanced custodial services
- Mechanical operations and maintenance (O&M) - HVAC
- Mechanical O&M - other

To participate in this program, the person who receives the tenant agency Rent bill must agree, in writing, to have the reimbursable services billed to the same Intra-Governmental Payment and Collection System (IPAC) or Billing Office Accounting Code (BOAC) number to which the Rent is billed. Upon receipt of written acceptance, PBS Central Office identifies the tenant agency as a participating agency. PBS documents the reimbursable service agreement between PBS and the tenant agency each year by an updated OA version (see Appendix, Sample Format for Recurring Reimbursable Billing). The billing and services are discontinued automatically at the end of each fiscal year and must be renewed by the tenant agency to continue receiving services and be billed via the PBS Rent bill. PBS charges an annual administrative fee, currently \$100 per service, to the tenant agency for this billing accommodation. The first month's Rent bill containing the reimbursable services cost contains the administrative fee.

The cost for the reimbursable services must be paid from and reimbursed to either BA61 (Building Operations) or BA53 (Rental of Space). PBS must also confirm that appropriate tenant agency budget authority exists. PBS may not accept reimbursement for any expenses for which PBS receives obligational authority in its appropriation, as this is considered an improper augmentation of PBS' appropriation. The requirement to use and reimburse the appropriate budget account is the same regardless of the vehicle used for reimbursement.

### 2.13. Pricing Standards – Parking

Parking is charged on a per-space basis as identified in the lease. The number of parking spaces must appear on the PBS Rent bill, even if the parking costs are not separated in the underlying lease contract. For some leases, the parking rate may be included in the shell rate.

PBS distinguishes between structured and surface parking types. Within these two categories, separate rates may be charged for reserved and unreserved parking spaces. If this occurs, PBS creates one OA and the OA Tool blends the rate based on the number of spaces at each rate (reserved and unreserved).

Costs for building-specific security countermeasures recommended by the FSC for a standalone parking structure or surface lot (separate building number) may be recovered through monthly miscellaneous billing adjustments to the parking-only OAs. The BSAC charge for a standalone parking structure or surface lot follows the same pricing methodology detailed in section 2.9.2.B, except the percent of the total cost attributed to a tenant agency is based on spaces rather than square footage.

### 2.14. Pricing Standards – Other Space

This billing category is used to charge for space types that have no square footage associated with them. Examples include ware yards, boat docks, and helipads. Charges for other space are a passthrough of the underlying lease contract.

## 2.15. Pricing Standards – PBS Fees

PBS passes through to the tenant agency the actual lease contract cost and the cost of any additional standard building operating expenses that PBS provides that are outside of the lease, plus a fee. The PBS fee for leased space is a flat 7 percent<sup>1</sup> and applies to all lease actions.

The PBS fee is designed to cover:

- Contract risk
- Lease acquisition services
- Lease administration

The PBS fee is applied as a separate charge for leased space and is contingent upon the tenant agency's final agreement to occupy the space. Tenant agencies may withdraw until the time the lease is ready to be awarded. If the tenant agency withdraws before lease award, no fee applies; PBS takes this business risk.

The PBS fee is not to be reduced (except as described in section 2.15.2) or increased. It is fixed at 7 percent, regardless of the services that a tenant agency may wish to self perform. PBS is a full-service real estate provider; the flat fee structure provides incentives to tenant agencies to use the full complement of services that PBS offers.

The PBS fee is calculated and billed based on the annual value of the lease contract plus the standard operating services that PBS provides for non-fully serviced leases. BSAC items funded by the lessor and included in the PBS Rent bill are also included in the fee calculation. The PBS fee is not applied to the billing adjustment portion of CPI escalations, real estate tax escalations, reimbursable above-standard services (even if the above-standard services are included in the contract rent), or BSAC items funded by PBS.

Although it is comprised of three parts (contract risk, lease acquisition services, and lease administration), the PBS fee is not divisible and is not negotiable. Tenant agencies do not have the right to choose among the elements within the PBS fee for purposes of reducing the fee.

Tenant agencies may elect, with PBS approval, to perform certain tasks covered by the fee, but PBS does not discount the fee. When the fee is taken as a whole, the services provided and contract risks accepted by PBS represent a good business deal for the tenant agencies.

The PBS fee does not apply to leased space acquired by tenant agencies who receive a delegation of leasing authority from the GSA Administrator.

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<sup>1</sup> The PBS fee was revised from 8 percent to 7 percent in FY 2008. See exceptions in Chapter 2.15.2.

### 2.15.1. PBS Fee Components

The PBS fee includes several components discussed in detail below. As the federal agency that has a legal relationship with lessors and private service providers, PBS assumes several types of contract risk, such as vacancy risk, contract formation and disputes, and limited tort liability.

As the party to contracts with private lessors and service providers, PBS assumes certain contractual risks, including defending contract disputes (such as damage to the lessor's property) with lessors and contractors. Due to this relationship with lessors and service providers, PBS may also on occasion have the responsibility of investigating, denying, or granting tort claims, as well as helping defend against tort claims arising from operation of the property, environmental contamination, or contractor supervision. However, if it is determined that a party (person or tenant agency) other than PBS is at fault, PBS is prohibited by law from indemnifying that tenant agency against tort risks, either the cost of defending or any eventual liability. PBS does not assume risks of ownership for leased properties.

As stated in section 5.1, tenant agencies may return marketable space to PBS with 4 months' written notice. In addition, PBS guarantees to find space for tenant agencies regardless of the location or occasion (including disasters and emergencies). These additional risk factors, along with the contract risks, are covered by the PBS fee.

The PBS fee covers the work effort required to support the leased space in the PBS inventory. The work effort on the leased inventory includes:

- Space assignment data and inventory system management
- Billing and budget formulation
- Construction management
- Prospectus development and advocacy
- Operating cost adjustments, tax payment computations, and accruals

PBS oversees the lease to confirm that the lessor is providing the services the lease requires.

## 2.15.2. PBS Fee Exceptions

There are two PBS fee exceptions—the designation of the space as non-cancelable and occupancies where the U.S. Postal Service (USPS) is the lessor.

### A. Non-Cancelable Space Exception

Non-cancelable space is characterized by the low probability of PBS finding a backfill tenant due to specific qualities of the space, including:

- Remote or not easily accessible location
- Special-purpose use or buildout necessitating significant capital outlays to retrofit the space to a more conventional use
- Unusual term
- Lack of any realistic federal need for the space, other than the requesting agency
- Any other factors that would significantly impair PBS' ability to backfill the space

PBS reviews each space assignment and uses the above criteria to designate space as cancelable or non-cancelable. PBS reduces the fee to 5 percent for leased assignments designated as non-cancelable. Tenant agencies may not volunteer to designate their space as non-cancelable to receive the reduced fee. The decision must be made at the beginning of a leasing action.

The OA must indicate that the space is non-cancelable in the first draft of the OA and at the beginning of the OA term. Once space has been designated (or not designated) as non-cancelable, it cannot be changed during the OA term. For a subsequent OA term, PBS reviews current market conditions and space qualities before determining whether the space continues to be non-cancelable.

### B. U.S. Postal Service-Controlled Space

PBS negotiates Tenancy Agreements (TAs) for space in properties controlled by USPS. A TA is considered to be a lease; therefore, PBS prices USPS-controlled space as it prices

leased space—as a passthrough of the rental charge assessed by the lessor.

PBS reduces the fee to 4 percent for tenant agencies that occupy space in USPS-controlled properties. This is in addition to any fees imposed by USPS as part of the USPS TA. PBS charges a 4 percent fee in USPS space because PBS provides an OA, negotiates for the acquisition of the space, and prepares and awards a TA with USPS. The 4 percent fee recovers these components of the PBS lease fee. The fee is reduced, however, because PBS does not bear the contract risk because USPS holds the risk of vacancy and there is no formal contract. For non-cancelable assignments in USPS space, the fee remains 4 percent. See Chapter 7 United States Postal Service Pricing for more information on pricing in USPS space.

### 2.15.3. Services Included in the PBS Fee

This section details the scope of services that PBS performs (either in house or by contract) in the normal course of acquiring and servicing leased space. A summary table is provided at the end of this section that outlines the services provided. Both the narrative and the table indicate the point at which the PBS baseline service ends and the tenant agency becomes responsible for additional costs. The services listed below are not in sequential order. PBS is compensated for these services through the PBS fee.

#### A. Conduct Market Survey

Conduct a survey of the space available within the delineated area. The elements of a market survey are:

- Building address and owner, building age, and location of the available space within the building
- Amount of available space within the building expressed in both local measurement and ANSI/BOMA office area (usable) square footage
- Common area factor
- Description of the quality of the building
- Statement indicating whether the building is in full compliance with the Architectural Barriers Act (ABA) or any applicable prior standard

- Identification of any potential fire and life safety problems
- Quoted rental rate per square foot, the method of measurement on which the quoted rental rate was based, the TI allowance/improvements included in the asking rental and the market standards, and the services that are included in the quoted rate
- Amenities located in the building or in the immediate area
- Color photograph of the property

## **B. Solicit Offers**

- Prepare and issue the SFO and any necessary amendments to the SFO
- Review and evaluate offers to determine which are fair and reasonable, and capable of meeting the government's requirements, including:
  - Determine if offers are capable of meeting the minimum requirements of the SFO
  - Review floor plans of the offered space and the location of the offered space within the building
  - Verify the ANSI/BOMA office area (usable) square footage
  - Determine whether offered space and building are capable of meeting PBS fire and life safety requirements, with any deficiencies addressed during negotiations
  - Determine whether the appropriate seismic safety certifications and any other certifications as required by the SFO have been provided
  - Negotiate any exceptions requested in the General Clauses
  - Review Representations and Certifications for completion and accuracy
  - Evaluate and perform cost and price analysis of the cost of services elements outlined in GSA Form 1217, Lessor's Annual Cost Statement

- Evaluate any overtime rates for utilities and HVAC included in the rental rate or lease proposal
- Address special security requirements, and arrange for a prelease security survey
- Prepare an abstract of each offer, including, but not limited to, the points identified above and the annual rental expressed in local measurement and ANSI/BOMA office area (usable) square feet for the initial term and the renewal term, if any; the length of the initial term and the renewal term, if any; the base cost of services; any concerns regarding the rent, including alterations and reimbursable alterations (nonamortized) required by the SFO; ABA compliance and fire and life safety considerations; and compliance with green lease clauses and any other significant SFO requirements

### C. Negotiate Offers

- Develop written negotiation objectives for the overall acquisition and specific to each offer; conduct independent negotiations with each offeror
- Negotiate subcontracting plan for contract set-asides (e.g., small business, small disadvantaged business) (if required) and submit to the GSA Small Business Technical Authority and the Small Business Administration for review and approval
- Prepare a record of negotiations for each offeror
- Prepare price negotiation memorandum
- Obtain any necessary preaward clearances

### D. Evaluate Offers

- Request, receive, and analyze final proposal revisions (FPRs)
- Evaluate each FPR with the objective of determining the most advantageous final offer based on the price and technical factors identified in the SFO and the method of evaluation described in the SFO

- Conduct present value analysis on all responsive offers, conduct scoring analysis, and determine successful offer
- Prepare a statement discussing why the proposed rental rate is fair and reasonable
- Notify all unsuccessful offerors in writing

### **E. Prepare Lease Documents and Award Lease**

Prepare lease documents, including the SF-2 and a lease rider or GSA Form 3626, most or all of the documents contained in the SFO and attachments, floor plans as required, and other pertinent information as applicable from the FPR, including annual rent, square footage, base operating costs, tax information, and any other costs not provided for in the annual rental, such as utilities and services and above-standard alterations.

### **F. Prospectus Generation**

If the dollar value of the lease requires a prospectus, PBS works with tenant agencies to identify requirements and perform the necessary analysis, including mandatory financial analysis of federal construction alternatives, to justify the prospectus. PBS, with supporting tenant agency documentation, also defends the prospectus before OMB and Congress.

### **G. Requirements Development**

PBS offers requirements development services to define requirements for new, expansion, or replacement space. PBS meets with tenant agencies to gather facts and analyze tenant agency mission, employee work styles, workflows, personnel utilization, and security needs to prepare a preliminary Needs Assessment. If applicable, PBS may provide professional consulting services, using in-house or contracted staff, to develop requirements.

The deliverable is a comprehensive, formal requirements package that captures the tenant agency's conceptual space needs. The official formal requirements package plus the development and negotiation of OAs with tenant agencies are also provided in the requirements development stage.

## H. Appraisals

When PBS requires an appraisal to determine the value of a leasehold interest, the PBS fee covers the appraisal.

## I. GSA Legal Staff Support

Legal support includes reviewing and giving counsel on the SFO, the lease documents, change of ownership documents, estoppel documents, other than full and open competition (OTFO) documents, and defending all protests and claims.

## J. Occupancy Agreement

As necessary, prepare and revise OAs throughout the acquisition process and secure necessary signatures from the tenant agency before the lease is awarded.

## K. Postaward Project Management Services

The project management services provided in the PBS fee are for initial space alterations funded by the TI allowance. For TIs above the allowance or after occupancy commences, PBS provides project management services for space alteration work for a separate fee, discussed in section 2.15.4.

Project management is defined as oversight of the design, estimating, management and inspection, and client relationship efforts for a specific project. PBS may perform these project functions using PBS employees or through contract employees hired by PBS to work as project managers. The tasks include the following:

- Schedule development, review, and enforcement
- Cost estimation (initial project budget estimate of shell, TI, architectural/engineering (A/E) and CM fees, and reviews of lessor TI costs, if needed)
- Price negotiation of specialty items and change orders
- Milestone and final inspections (not daily inspections)
- Project cost reconciliation

- Followup enforcement so that punch list items are performed
- Space measurement and acceptance

For each project, PBS determines the level of project management oversight required to manage the project.

#### **L. Lease Administration**

During the term of the lease, PBS administers and manages the lease, which includes the following functions:

- Processing tax payments, step rents, operating cost adjustments, and real estate tax appeals
- Initiating and executing contract changes
- Enforcing lease terms and conditions
- Procuring services outside of the lease
- Paying rent to building owners

PBS works closely with tenant agency representatives so that the lessor performs the services to the lease contract standard. For large lease locations (typically leases over 250,000 square feet), PBS may provide onsite representatives to monitor lessor performance and lease contract compliance.

When lessor-provided services are faulty or rendered inadequately, or where services are not provided by the lessor as part of the lease, PBS personnel arrange for the performance of the services by others through separate service contracts. In cases where certain operating services are not provided by the lessor as part of the lease, PBS procures the additional services through a separate contract. Tenant agencies pay the actual contract cost PBS incurs, plus the 7 percent fee.

PBS personnel negotiate with the lessor for service level changes that become a permanent part of the lease contract.

The recurring RWA fee, currently \$100, applies when PBS handles recurring premium services (e.g., overtime utilities, executive-level cleaning).

PBS staff provides expertise and advice, without fee, in such areas as childcare, energy use, recycling, contracting, repairs,

safety, environmental assessment, and renovations and alterations.

### M. Fire and Life Safety

PBS assesses the level of fire risk in PBS-controlled leased space in accordance with PBS policy and applicable national and local codes, prior to and throughout a tenant agency's space assignment.



**Note:** The PBS fee does not cover the cost to obtain permits, if any are required.

## 2.15.4. Additional Services Outside of PBS Fee

### A. Environmental Studies

PBS requires offerors and lessors to conduct a Phase I and, where warranted, a Phase II environmental site assessment (ESA) of offered properties to provide due diligence regarding contaminants and other risks when there are indications (e.g., from prior use history of the site) that environmental contamination may exist. Phase I and Phase II ESAs may also be required in leases for which PBS is considering taking environmental risk (through lease clause changes that limit PBS' ability to terminate the lease or interrupt rent payments in the event of an environmental problem).

The PBS fee does not cover the cost of a procurement-specific environmental assessment (EA) or an environmental impact statement (EIS). PBS procures these studies on a reimbursable basis. Only when PBS controls the site for a leased property (such as if PBS obtains an assignable purchase option), does PBS initially cover the cost of any necessary environmental studies associated with that property. PBS seeks reimbursement from the successful offeror for the costs of these studies. Further, the PBS fee does not include the cost of remediation of site contaminants or other environmental problems related to locating tenant agencies in leased space. Remediation costs are borne by the lessor in the shell rent.

## B. Project Management Fee

When project management services are required for projects with TI work above the allowance or after occupancy commences, PBS charges a fixed 4 percent project management fee for the oversight of the additional TI work. The intent of the project management fee is to cover PBS' indirect project costs nationwide, not necessarily on each project; therefore, it cannot be waived.

The project management fee does not apply to services PBS provides tenant agencies for their physical moves, relocation management, or purchasing of personal property such as telecommunication equipment and furniture. These services are described below. PBS must negotiate the recovery of those service costs with the tenant agency. Telecommunication wiring and cabling may be funded within the TI allowance or provided separately by the tenant agency—see section 2.5.2. If funded by the TI allowance, the 4 percent fee only applies to the TI costs that exceed the TI allowance.

The project management fee covers indirect project costs, such as:

- Salary and benefits of PBS employees and contract employees hired by PBS to work as project managers when they are overseeing (administering) TI work
- Business line overhead (regional and field office)

The project management fee does **not** cover direct project costs, such as:

- Contract costs for space programming, design services, construction, or the cost of a CM firm hired by PBS to provide management and inspection on a specific project
- The cost of PBS employees who actually perform the design or detailed management and inspection of construction work

For example, the project management fee does not cover the PBS employee's time performing construction management and inspection services, as those costs are directly charged to the project. However, if PBS hires a CM firm, the PBS employee's work is considered oversight and the project management fee covers the employee's time overseeing the CM contract. The direct project costs are applied to the RWA.

The project management fee is applied to the sum of the following direct costs:

- Design and CM contract services for space alteration work
- PBS employees' time actually performing the work
- Construction costs
- Travel

Generally, PBS does not charge for travel associated with oversight of a project unless the tenant agency requests more frequent site visits than PBS deems necessary. In circumstances where the work site is remote (outside of commuting area), PBS may request that the tenant agency agree to reimburse PBS for the travel expenses (e.g., per diem, air fare, car rental, mileage) of PBS employees overseeing the project, beyond the project management fee. In these cases, PBS must estimate the travel costs, and secure the tenant agency's consent to the charges. Chargeable travel expenses do not include the salaries of the PBS employees overseeing the project.

The project management fee applies to projects as follows:

- **Initial or backfill occupancy** – the project management fee is applied to the value of the TIs over the TI allowance that is funded by the tenant agency with an RWA. See section 2.5.10 for lump-sum payment options.
- **Postinitial and continuing occupancy** – the project management fee is applied only to TI work funded by the tenant agency with an RWA.



**Note:** The sliding scale overhead charge that covers all nonbusiness-line overhead is applied to the total value (including the project management fee) of all nonrecurring RWAs.

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### C. Other Services Outside of the PBS Fee

PBS provides a range of services to support tenant agencies throughout the space acquisition process. Upon request, PBS will make the following GSA resources available to tenant agencies; actual cost for provision of these services is outside of the PBS fee:

- Telecommunication network services and information technology
- Furniture, equipment, and supplies (GSA and private-industry vendor resources)
- Planning and execution of the physical relocation (GSA move contractors)
- Full-service relocation management, including, but not limited to: planning, scheduling, and developing move sequence plans, conducting relocation project management meetings, supervising deliveries and installations
- Special consulting services, such as office art, audiovisual systems, acoustics, records management, copy and mail room services, lighting, specialty security, and signage (GSA expert vendors and suppliers)

**Table 2-4. Fee Matrix for Initial Occupancies**

Activity	Included in Fee	Agency Responsibility	Notes
<b>Lease Acquisition Services</b>			
Survey market	Yes		
Solicit offers	Yes		
Negotiate offers	Yes		
Evaluate offers	Yes		
Prepare lease documents/award lease	Yes		

Activity	Included in Fee	Agency Responsibility	Notes
<b>Additional Services</b>			
Prospectus generation	Yes		
Requirements development	Yes		
Appraisals	Yes		
GSA legal staff support	Yes		
Occupancy Agreement	Yes		
<b>Postaward Services</b>			
Postaward project management services	Yes, up to TI allowance	For TI costs that exceed the TI allowance, an additional 4 percent project management fee applies	
<b>Services During Occupancy Term</b>			
Lease administration	Yes	The recurring RWA fee (currently \$100) applies when PBS handles recurring premium services	
Fire and life safety	Yes		
<b>Additional Services Outside PBS Fee</b>			
Environmental studies	No	If EIS or EA is needed	Lessor performs ESAs as part of lease contract amount

Activity	Included in Fee	Agency Responsibility	Notes
Project management fee	No	For TI costs funded with an RWA, an additional 4 percent project management fee applies	
Telecommunication network services and information technology	No	Yes	Make GSA resources available; actual costs for provision of these services are outside the PBS fee
Furniture equipment and supplies	No	Yes	
Physical move	No	Yes	
Relocation management	No	Yes	
Special consulting services	No	Yes	

## 2.16. Pricing Standards – Joint Use

Joint use amenities are public good amenities, including, but not limited to:

- Government-provided cafeterias
- Randolph-Sheppard Act blind stands
- Childcare centers
- Fitness centers
- Public Health Service wellness units
- Shared conference rooms
- Credit unions
- Visitor parking spaces

Joint use charges are rents for those amenities, and apply whether or not employees of the tenant agencies elect to use the amenities.

### 2.16.1. Joint Use Charges and User Base

The costs for the amenities are totaled and distributed among all federal users directly in proportion to each user's percentage of federal occupancy. The user base for joint use charges may extend beyond the building housing the joint use amenity. For leases, there are four types of joint use space, identified below:

- **Building and lease** – amenities housed in the leased building are available only to the tenant agencies in the lease or building. For a building with one lease, building and lease joint use are synonymous. For a building with multiple leases:
  - When amenities are available to all the federal tenants in the building, the space is assigned as building joint use and it is prorated among all the federal tenants in the building.
  - When amenities are available only to the federal tenants under one lease, the space is assigned as lease joint use and it is prorated only to the tenants under that lease.
- **Facility** – amenities are shared among two or more buildings that are designated as a facility within the inventory system.
- **Community** – amenities, such as childcare centers or cafeterias, housed in one building are available to tenant agencies in neighboring buildings. Those buildings must be designated as a community within the PBS inventory system. To be included in the community, the other buildings must be within a reasonable distance to the amenity. Before being included in the community, tenant agencies outside of the building where the joint use amenity is located must be notified in writing of their inclusion in the community, and they must be given enough time to budget for the joint use charge. Time to budget does not apply to tenant agencies that are currently being charged for the building joint use space. When community joint use is assigned, the OA will include a clause identifying the building where the amenity is housed.

Standalone joint use buildings must be designated as facilities or communities or assigned directly to a single tenant agency. The joint use charges then follow the same methodology outlined above.

Regions must conduct periodic reviews of the joint use user base and make adjustments as necessary.

Joint use space charge is a single line item on the tenant agency's Rent bill, although it consists of shell rent, amortized TIs, taxes, and operating costs. Joint use charges are subject to escalations. The joint use rate does not include security charges or the PBS lease fee, as these appear separately on the PBS Rent bill.

### 2.16.2. Joint Use Components

For joint use space or parking within a building or lease, the joint use charge is comprised of the following components:

- Lease cost for the joint use amenity
- Any additional services not included in the lease

Regardless of the escalation month in the lease, joint use rates are reset annually at the beginning of the fiscal year.

### 2.16.3. Joint Use and the Tenant Improvement Allowance

Two separate cases exist regarding the use of the TI allowance for the buildout of joint use amenities.

#### A. Multiple Tenant Agencies in a Building, Lease, Facility, or Community

PBS or the lessor funds the buildout of shared amenities. Since the amenities are funded in their entirety, regardless of TI allowance, there is no need to distinguish between the TI allowance and a tenant agency lump-sum amount. PBS also funds the initial purchase, maintenance, repair, and replacement of equipment and personal property in cafeterias, childcare centers, and playgrounds and provides a shell ready for Randolph-Sheppard stands. The Randolph-Sheppard vendor is responsible for funding the space improvements.

#### B. Single Tenant Agency in a Building

In the case of a single tenant agency, defined by one A/B code, occupying a building, the amenities are for the exclusive use of the sole tenant agency and, typically, the tenant agency plays a large role in determining the composition and size of the amenities. PBS' policy is to treat these amenities as extensions of the tenant agency's space. The amenity space is afforded the same per-square-foot TI allowance as the tenant agency's other space. The charge is passed entirely onto the single occupying

tenant agency as assigned space, not as separately charged joint use. PBS funds the initial purchase of equipment and personal property in cafeterias, childcare centers and playgrounds, and Randolph-Sheppard stands. PBS, through the lessor, provides a shell ready for Randolph-Sheppard stands and the vendor is responsible for funding the space improvements. The tenant agency is responsible for maintenance, repair, and replacement of equipment and personal property unless otherwise stated in the lease.

The standalone joint use building must be designated as a facility or community or assigned directly to a single tenant agency. The joint use charges follow the same methodology outlined above in section 2.16.1.

#### 2.16.4. Joint Use and Warehouse Space

If the space is entered into the OA Tool as the warehouse space type, it is not included in the tenant agency's pro rata share of space for distribution purposes. No joint use charges are assessed for the warehouse space type in the OA Tool.

### 2.17. Pricing Standards – Rent Concessions

Any rent concession given at the start of a lease term, such as free space or the commission credit received on the National Broker Contract (NBC), is passed through to the tenant agency, provided it occupies the space for the duration of the firm term. If the tenant agency chooses to vacate before the end of the firm term, the credit is prorated over the period of occupancy and the unearned portion is refunded to PBS. The refunded credit is not passed through to any backfilling tenant agency.

#### 2.17.1. Free Space

When an offeror has a contiguous block of space that exceeds the maximum amount for which PBS has solicited, it may offer this space at no charge to the government. When the offered space exceeds the maximum SFO requirement, the tenant agency must be consulted. The tenant agency must agree to accept the extra space and sign an OA for the actual square footage, or the tenant agency must reject the additional square footage. If the tenant agency accepts the space, then Rent for the total square footage (including the free space) is assessed on the PBS Rent bill. However, the overall rate is reduced (blended in the OA Tool) to essentially make the additional space free. If the tenant agency rejects the extra square footage, the offeror must show that the

free space will be partitioned off from the requested block of space. Once free space is accepted, the following apply:

- The contracting officer must not consider the free space during negotiations or evaluations of a competitive lease action.
- The TI allowance must not be increased to include the square footage of the free space.
- A clause must be inserted in the OA to explain the terms of the free space and details of the blended rate.
- The square footage of the free space must not be included in the base cost of services.
- The annual CPI adjustment is not applied to the free space.
- The percent of government occupancy, for real estate tax purposes, must not include the free space.
- If space is returned by the tenant agency before expiration of the lease, an amount of square footage up to the total free space square footage must be returned first, with no adjustment to the Rent, before any paid space can be released. This is the case even if the physical space that was initially counted as free remains in the tenant agency's possession. This information is included in the free space OA clause.
- The free space square footage is not included in any scoring analysis pertaining to a location with free space.
- Before accepting free space for a prospectus level lease, seek further guidance from PBS Central Office.

Charges outside of the lease contract, such as security costs billed through FPS, are assessed on the entire block of space, since it is occupied by the tenant agency.

### 2.17.2. National Broker Contract Commission Credit

PBS has used and continues to use contracts with commercial real estate brokers to assist PBS with some lease acquisitions. The contracts include the NBC, regional/zonal broker contracts, and the contract for the 2010 U.S. Census project.

Under the NBC, contractors are compensated through commissions paid by the lessor. Only under the NBC does PBS usually receive a portion of the commission back and apply it as a credit against shell rent. Exceptions are NBC expedited task orders for which the contractor is requested to deliver the space within 120 days from task order issuance. If successful, the

contractor keeps the entire commission, and PBS receives no commission credit.

The amount of the commission credit is documented in the lease and passed on to the appropriate tenant agencies. The commission credits are processed as follows:

1. The credit is applied against the shell rent.
2. Beginning with the first month that rental payments are due, the credit is applied against the shell rent in equal amounts each month over the fewest number of months possible until the credit is fully captured. The monthly credit must not exceed the monthly shell rent.

Example: If the credit is more than 1 month's shell rent and less than or equal to 2 months' shell rent, it should be taken in two equal monthly installments starting with Rent commencement. If the credit is more than 2 months' shell rent and less than or equal to 3 months' shell rent, it should be taken in three equal monthly installments, starting with Rent commencement. To illustrate, if the credit is \$24,000 and the shell rent is \$10,000 per month, the credit is applied in three monthly installments of \$8,000 each.

3. The OA reflects the full shell rent and the commission credit is treated as a billing adjustment.
4. In the PBS inventory system, the full cost of the lease is reflected on the payment schedule with the commission credit recovered as a withhold.

### 2.17.3. Repayment of Concessions Upon Return of Space

An OA standard clause addresses the tenant agency's responsibility for the unearned balance on any concession value in the event the tenant agency exercises its right to return space on 4 months' written notice. For example:

- A lessor provides 6 months of free rent on an 8-year firm term lease and the tenant agency leaves at the end of year 5.
- Then, out of 90 monthly payments over the lease term (8 years multiplied by 12 months equals 96 payments, minus 6 months free equals 90), the tenant agency made only 54 payments (5 multiplied by 12 equals 60, but the first 6 months were free, so 60 minus 6 equals 54).

- The tenant agency has earned only 60 percent of the initial free rent concession (54 divided by 90 equals 60 percent) but has already received the entire benefit of the concession.
- Sixty percent of the initial 6 month free rent concession equals 3.6 months (6 multiplied by 0.6 equals 3.6) and therefore, the tenant agency must pay PBS back 2.4 months' rent, which is the value of the concession unearned.

The tenant agency must repay the unearned portion of the concession at the time the tenant agency ceases occupancy. The payment may be made over a number of months, rather than in a lump-sum adjustment, upon mutual agreement of PBS and the tenant agency.



## Chapter 3. Pricing in Federally Owned Space

This chapter describes in detail how the Public Buildings Service (PBS) prices federally owned space. Pricing of leased space is addressed in Chapter 2, Pricing in Leased Space.

### 3.1. The Occupancy Agreement

The Occupancy Agreement (OA) is a complete, concise statement of the business terms governing the relationship between PBS and the tenant agency for a specific space assignment. The OA serves as the billing document on which subsequent Rent payments are based. Every space assignment in the PBS portfolio must have its own OA. Each assignment is recorded in the PBS inventory system.

The OA addresses both the financial specifics of the agreement and the responsibilities of PBS and the tenant agency. The OA is not a lease, nor is it a document detailing building rules and regulations. It is a formal agreement between the signing parties; PBS will honor its terms and expects the tenant agency to honor its terms as well. The OA consists of four parts:

- Description of Space and Services
- Clauses (Terms and Conditions)
- Signature Page
- Financial Summary

The OA is developed and updated through successive iterations, beginning with initial preliminary budget estimates using fair annual rent (FAR) appraisal-based rates, as appropriate, continuing through space acquisition and development, and ending in the final, definitive billing OA. Thus, the OA serves as a preview of the tenant agency's total Rent charges. By revising and updating the preliminary OA as more information becomes available, PBS is sharing with the tenant agency how the business terms evolve throughout the space acquisition process.

#### 3.1.1. Description of Space and Services

The Description of Space and Services section of the OA identifies the usable and rentable square footages, the number of parking spaces, the type of space, the building name and address, and the OA term. PBS bills tenant agencies on the basis of rentable square footage (RSF); usable square footage (USF) is the space assigned to a specific tenant agency.

The OA gives the tenant agency a right to occupy the space for a specific duration called the OA term. Tenant agencies do not have a perpetual right to occupy the space identified in the OA. The OA

standard term is 10 years, but OAs may be set for shorter or longer terms by mutual consent. Regardless of the OA term, shell and base year operating rates cannot be preset for more than 5 years. For example, an OA can be written for a 10-year term, but must specify that the shell and base year operating rates will expire and be reset to market every 5 years. Before the expiration of the shell rate, usually 18 to 24 months in advance, PBS is to prepare a revised OA and send it to the tenant agency.

Because the OA conveys a right to the tenant agency to occupy the space for a specific period, PBS must limit OAs to terms that do not impede a major modernization, disposal, or other planned event that would necessitate vacating the building. If PBS grants an occupancy term beyond a date by which a building must be vacated for a PBS-initiated event, PBS must fund the tenant agency's move in accordance with the move policy explained in chapter 4. In cases where there is uncertainty regarding when authorization of a pending PBS-initiated event, such as a modernization, will be approved, PBS will use year-to-year extensions for OA terms.

### 3.1.2. Clauses

The Clauses section of the OA addresses the responsibilities of PBS and the tenant agency. There are four types of clauses, identified below.

The **PBS standard clauses** explain the obligations of both PBS and the tenant agency during the acquisition of space as well as during occupancy. The standard clauses are mandatory for every OA and may not be changed by the tenant agency. PBS developed these clauses to implement the regulations regarding the pricing of space provided in the Federal Management Regulation (FMR). The FMR does not address in detail the responsibilities of PBS or the tenant agency. These standard clauses are different for leased, federally owned, and U.S. Postal Service assignments.

The **agency-specific clauses** outline terms and conditions that a particular tenant agency or bureau has agreed to use nationally in every OA. Some agency-specific clauses are optional because they apply only to a specific subset of the tenant agency's occupancies.

The **optional clauses** apply in certain situations that are relevant to some, but not all, OAs.

The **ad hoc clauses** consist of various terms and conditions specific to the assignment and not already included in the OA. These must be approved by PBS and added at the OA level.

Table 3-1. Occupancy Agreement Clause Descriptions

Clause Type	Requirement	Application
PBS standard clauses	Mandatory	Required for all occupancies
Agency-specific clauses	Mandatory or optional	Could apply to all of a tenant agency's occupancies (mandatory) or just a subset (optional)
Optional clauses	Optional	Could apply to any occupancy, based on the situation
Ad hoc clauses	Optional	Specific to one occupancy

### 3.1.3. Signature Page

For all space assignments, PBS requires tenant agency agreement, via signature on the OA, before incurring significant costs to pursue the project or procurement (e.g., purchasing a site or awarding a building design contract). If the tenant agency later backs out of the signed OA agreement, PBS reserves the right to seek reimbursement. See Chapter 5, Tenant Agency Rights and Options for further discussion. Both parties' signatures are required for billing. PBS does not accept handwritten changes to the OA from either party.

When a tenant agency is being displaced unwillingly, as in the case of a forced move, there may be resistance to signing an OA. In these cases, PBS may proceed without tenant agency signature on the OA, provided PBS is able to demonstrate attempts to secure the displaced tenant agency's signature and that the tenant agency was provided opportunities to influence the project. PBS must keep documentation of the communication effort in the project file.

### 3.1.4. Financial Summary

The financial summary section of the OA provides a preview of the tenant agency's Rent bill. It itemizes the cost components of the Rent payment and summarizes both the financial terms and any lump-sum payment requirements.

The financial summary can also serve as a planning and budgeting tool to aid the tenant agency in the understanding of future financial obligations. For this reason, PBS must continue to

update the OA with accurate data to enable the tenant agency to use the OA to guide decisions.

### 3.1.5. Revising an Occupancy Agreement

The following events require a revision to an existing OA and tenant agency signature is required to confirm the modification:

- Tenant agency expands or reduces space at an existing location
- Services are added or deleted
- PBS agrees to fund additional tenant improvements (TIs), which are then amortized over the remaining OA term, or over an extended OA term
- PBS or the tenant agency wishes to revise the OA terms (must mutually agree)

The following events require sending a revised OA to a tenant agency, along with a cover letter that explains the change in the assignment. The cover letter must state that it is an administrative OA for notification purposes and that tenant agency signature is not required.

- 5-year fully serviced shell rate reset to market with no change to the USF
- Joint use amenities added to or removed from the building
- Capital expenditures undertaken by PBS for new or enhanced security fixtures or features approved by the Facility Security Committee (FSC)
- Continuing occupancy initiated, if there is no change to USF and no new TI is added
- Parking spaces added to or removed from an assignment
- Antennas added to or removed from an assignment
- 5-year adjustment of return on investment (ROI) shell rate to recover PBS-funded new capitalized shell improvements funded
- Building remeasurement (initial measurement, remeasurement, or maintenance) that causes a change in the square footage of the space a tenant agency occupies; see section 3.4.3 for further information on remeasurements
- Identification of blocks of space that have been occupied by a tenant agency but that have not been assigned to the tenant agency (i.e., squatting), or identification of blocks of space

that have been assigned but are not occupied by a tenant agency; see section 3.4.4 for further information

The following rates are adjusted annually. The OA Tool automatically updates OA data for these adjustments. Transmittal of a revised OA supporting the annual adjustments is not required.

- Operating costs
- Parking
- Antennas
- Building-specific amortized capital (BSAC) security (maintenance and replacement of fixtures and features and termination of amortization schedules)
- Joint use

## 3.2. Occupancy Types

All occupancies fall into one of three broad categories: new, continuing, or backfill.

### 3.2.1. New Occupancies

For pricing purposes, a new occupancy is defined as space that is new to the PBS inventory. In federally owned buildings, this usually means the first ever use of the space (i.e., new construction) and is considered first generation space. The shell rate is based on the appraisal of the building in its shell condition (i.e., without TIs). This enables PBS to add to the appraised shell the cost to amortize the TIs selected by the tenant agency. Complete discussions of shell and TI costs can be found in sections 3.5 and 3.6, respectively.

In some cases, there may be a new occupancy added to an existing occupancy, such as an expansion to an existing assignment. In these instances, PBS revises the existing OA to include the expansion space, or, upon request by the tenant agency, creates a separate OA for the expansion space.

If the existing OA is revised to include the expansion space, the Rent on the expansion space may be blended with the Rent on the pre-existing space to arrive at a composite rental value using an incremental version of the OA. In such cases, there is no need to reset the expiration date for the shell rate on the existing space; the shell rate that is applied to the expansion space will govern the expansion portion until the shell rate on the initial space expires.

At that time, a new shell rate will be established that covers both the initial and the expansion space.

If a separate OA is created for the expansion space, the expiration for the separate OA must coincide with the OA expiration date in the initial OA.

### 3.2.2. Continuing Occupancies

A continuing occupancy is one in which the tenant agency remains in the same space that it occupied during the prior OA term. Before the conclusion of the OA term, usually 18 to 24 months in advance, PBS is to prepare a new OA version and send it to the tenant agency.

For the follow-on OA period, or after the first 10 years of occupancy, whichever comes first, PBS charges the tenant agency an "as-is" Rent rate. This as-is rate, determined by appraisal, is the value of the space in its current condition on the open market for use as office or warehouse space. It is more than the shell rate because it includes Rent on the residual value of the TIs. It is appropriate for PBS to charge the as-is rate (including the residual value) for three reasons:

- The improvements have value and belong to PBS, not the tenant agency, at the end of the occupancy term.
- Real estate markets recognize this residual value. Private-sector landlords are able to get modest rents above the shell for existing buildout.
- The as-is Rent represents PBS' opportunity cost for the space. In theory, PBS could find a new tenant agency to pay such a Rent without any further tenant work.

The as-is rate, determined by a third-party appraiser, is charged without adjustment as the Rent for continuing occupancies. The rate is appealable, but not negotiable (see section 5.5 for more information on appeals).

When considering a continuing occupancy, tenant agencies may look to PBS to provide funds to alter the space or to refresh it with new paint and carpeting, in return for a commitment to pay additional Rent over a period of years (new amortization). In theory, the full TI allowance can be made available to tenant agencies at this time. However, PBS does not have the funds to do this routinely nor is it expected that tenant agencies will have the Rent budget to pay the amortized cost or the need for the use of the full TI allowance. Tenant agencies may expect PBS to fund and amortize minor alterations and/or carpet and paint at the beginning of a new OA term, provided funds are available within

the PBS budget. Tenant agencies may also fund TIs by reimbursable work authorization (RWA).

### **A. Appraisals and Continuing Occupancies**

PBS' policy is to use the market rental rate determined by the most recent FAR appraisal. It is PBS policy to use third-party contract appraisers to obtain independent market-based rent appraisals. PBS uses the appraiser's rates without adjustment in the OA. The FAR rates generated by the FAR appraisal process are neither raised by PBS in pursuit of greater funds from operations, nor lowered in negotiations with a tenant agency. Variances from the FAR rate occur only when justified by unusual market or building conditions and then only with approval from both the regional portfolio director and the PBS lead appraiser.

In accordance with stringent FAR appraisal guidelines, other than the RSF/USF (R/U) adjustment, no adjustments are to be made to FAR rates; any corrections or changes for discrepancies must be made by the contract appraiser performing the appraisal. Each FAR appraisal is subject to a four-step review process: 1) regional appraiser review; 2) regional portfolio director concurrence; 3) PBS Office of Real Property Asset Management review; and 4) review and acceptance by the PBS lead appraiser.

The rental rate determined by the FAR appraisal may not be used for rate setting purposes until all reviews are completed and the PBS lead appraiser approves and accepts the FAR appraisal. The regional appraiser provides the applicable rate for prospective occupancies to the requesting person after receiving a completed rate request.

### **B. Release of Appraisal Information**

PBS expects its tenant agencies to recognize and accept third-party appraisals procured by PBS as the best and most expedient means of setting intragovernmental pricing for federally owned space.

If a tenant agency believes that an appraised rental value is incorrect, the tenant agency's representative with authority to sign OAs may request a meeting with the PBS regional appraiser to review the appraisal before filing a formal Rent appeal. It is PBS' responsibility to demonstrate that the appraisal was prepared in accordance with instructions and that the Rent rate was correctly derived from the appraisal and

reflects a market equivalent user charge. The PBS regional appraiser should explain the content of the appraisal and the appraisal process to the tenant agency representative. Specifically, PBS must offer explanations to the tenant agency representative for the appraisal practice of adjusting market data to arrive at a reconciled opinion of value based on the appraiser's knowledge and experience in the subject market. After meeting with the tenant agency representative, the PBS regional office may provide a copy of the appraisal, if requested.

Confidential information, such as the identity of the tenants in the lease comparables, the identity of lease comparable data sources, or other information the appraiser obtained with a promise of confidentiality, will be redacted from the appraisal.

### 3.2.3. **Backfill Occupancies**

Backfill occupancies occur when PBS has existing space that is already built out but vacant and available for a new tenant agency.

#### **A. Valuation of the Existing Tenant Improvements**

PBS pricing for vacant existing space (space in the PBS inventory with a prior use or tenant) begins with the as-is FAR rate, and then adds the cost to amortize any new TIs the tenant agency elects. Demolition costs to remove old TIs are not chargeable against the new tenant agency's TI allowance. Additionally, costs associated with replacement (if necessary) of elements of the building shell are not chargeable to the tenant agency's TI allowance; PBS must absorb these costs.

#### **B. Determination of the TI Allowance**

Subject to PBS' ability to fund, PBS may provide backfill occupancy tenant agencies the total TI allowance that would have otherwise been available under a new occupancy. The funding for TIs is provided through BA54 funds up to the TI allowance or functional space costs, and the tenant agency is responsible for amounts over the allowance or functional space costs.

#### **C. Backfill Pricing Flexibility**

PBS may exercise administrative discretion in setting rental rates for backfill tenant agencies to optimize income to the Federal Buildings Fund (FBF). This flexibility is available to

achieve an earlier backfill, resulting in greater income over time as opposed to waiting for a tenant agency that may be willing to pay full market Rent as represented by the appraised rate. Before offering a below-FAR rate, a pricing deviation approved by the regional portfolio director is required. The below-market rental rate must not exceed 5 years and could be less than 5 years, regardless of the OA term. The intent is to bring the tenant agency's Rent into conformity with the appraised rate in the shortest period possible, as discussed in section 3.2.2.

### 3.3. Pricing Fundamentals – Predominant Use

A building's predominant use determines its class in the inventory system; if the space is 70 percent or more of a particular class, the building is designated as that class. The rates for each building class are established using the FAR appraisal instructions or the ROI instructions.

PBS recognizes four building classes in the assignment of space:

- General Use
- Warehouse
- Parking
- Unique

For general use, warehouse, and unique, the space classification applies at the building level and is determined by predominant use. The parking class can be used for separate parking structures, surface parking, and to identify the parking area within a building that is designated as one of the three other classes.

#### 3.3.1. General Use

Most space falls into this class, which includes general office space and special-purpose space such as courtrooms, laboratories, and computer centers. Antenna-only assignments are also considered general use.

#### 3.3.2. Warehouse

This building class is used when the predominant use of the space is warehouse.

The TI allowance is reduced to 20 percent of the general allowance—see section 3.6.13.

### 3.3.3. General Use and Warehouse

The pricing consequence of the distinction between general use and warehouse buildings is that there is no "office" rental rate applied to warehouse; PBS recovers cost on space built out as offices in a warehouse through the amortized payment for the TI allowance that covered the cost to construct the offices. (Conventional office shell elements are not present in a warehouse building, so the TI allowance in the case of a warehouse must cover all of the buildout costs for the office.)

In instances where there is a large amount of office space and a large amount of warehouse space in the same building, it is possible to have a separate rate for each type of space. Each rate would be based on a FAR appraisal. In this instance, create one OA where the OA Tool blends the general use and warehouse rates based on applicable square footage and indicate in the OA the original appraisal amounts for each type of space in an ad hoc clause. The rates are not to be blended manually outside the OA tool. In cases where both warehouse and general use space are present, the TI allowance is calculated by providing the full general and custom allowance for the general use space and only 20 percent of the general allowance for the warehouse space.

### 3.3.4. Parking

This building class comprises standalone parking structures or surface lots (for which separate building numbers are assigned) and parking at buildings with a general use or warehouse class (for which the parking and the associated building share the same building number). Parking is charged a per-space rate as opposed to a per-square-foot rate.

PBS distinguishes between structured and surface parking types. Within these two categories, separate rates may also be charged for reserved and unreserved parking spaces, if warranted subject to approval by the regional appraiser. In this instance, create one OA where the OA Tool blends the rate based on the number of spaces at each rate (reserved and unreserved). See section 3.14 for parking pricing standards.

### 3.3.5. Unique

Unique space is distinguished from the other three building classes to allow for special pricing arrangements when the other pricing methods are not appropriate. Land ports of entry (LPOEs) are an example of unique space.

## 3.4. Pricing Fundamentals – Space Measurement

PBS buildings are measured assigned according to the current edition of the PBS National Business Space Assignment Policy (NBSAP). This PBS policy is based on the Standard Method for Measuring Floor Area in Office Buildings, American National Standards Institute/Building Owners and Managers Association (ANSI/BOMA) Z65.1, current edition, issued by BOMA with modifications applicable to PBS' business. The NBSAP provides definitions and descriptions for measuring and maintaining buildings and the actual process is carried out through the Spatial Data Management (SDM) program.

Federally owned buildings are measured and maintained to provide accurate tenant agency assignment data and square footage information. Through the creation and maintenance of SDM drawings, SDM supports timely and accurate Rent bills for our tenant agencies. The SDM program consists of two major business process flows: initial measurement and validation (IMV) and maintenance. The remainder of this chapter details the SDM process and how it affects tenant agency billing.

### 3.4.1. Initial Measurement and Validation

A building undergoes IMV once to create SDM assignment drawings and then the associated data is updated in the inventory system. The IMV process within the SDM program consists of six stages:

1. Prevalidation
2. Process initiation
3. Field work and remeasurement
4. Assignment data input
5. Reconciliation
6. Inventory system update and balance verification

The sixth and final step of the IMV process is important, as the final goal is to reconcile the inventory system to the assignment drawing so that both systems maintain the same data.

Once a building has completed the IMV process, the building is considered in maintenance, and the drawings and all associated data must be maintained so that data accuracy exists between systems.

### 3.4.2. Maintenance

Maintenance involves active monitoring through separate activities: day-to-day actions, review of variance reports between

the systems, and periodic walkthroughs (i.e., remeasurements, audits, and rewalks). The appropriate approach depends on numerous factors. When variances occur between the assignment drawings and the inventory system, it is important for the regional practitioners to work with the regional SDM coordinator to determine the best course of action to reconcile the variances and maintain inventory system accuracy.

Depending on repair and alterations projects, regional resources devoted to building maintenance, tenant agency activity, and other factors, a building may undergo numerous or significant changes resulting in the need to be remeasured. This process is called a “remeasurement” and follows steps similar to those in the IMV process. When substantial variances develop between the assignment drawings and the inventory system (and the OA), a remeasurement is required to verify drawings are accurate so that the inventory system contains correct assignment data. A remeasurement is more labor- and cost-intensive than auditing or rewalking space; the regional SDM coordinator should be contacted to assist with determining the appropriate maintenance process to correct the assignment data.

### 3.4.3. Execution of SDM-Initiated Space Changes

PBS’ tenant agencies play a significant part in the IMV and maintenance processes as they assist with PBS’ inhouse validation and reconciliation of the measured data. By nature of its involvement, the tenant agency becomes fully aware of any pending changes to its current assignments. See section 8.1 for application of space changes in U.S. Senate space.

#### A. Inventory System Update

If it is determined and verified that the RSF, USF, or unmarketable (e.g., vertical circulation, unfit for occupancy) square footage is different from the square footage of record after a measurement or maintenance process is completed for a building, then all space changes must be updated in the inventory system immediately as the drawing and inventory system must be kept up to date.

#### B. OA Update – No Change in Usable Square Footage

When the USF of a tenant agency’s assignment does not change, PBS may not initiate a change to the OA until the shell rate expires, the OA expires, or the tenant agency initiates a change—see section 3.4.7.

### C. OA Update – Change in Usable Square Footage

When the USF of a tenant agency's assignment increases or decreases, PBS will not adjust the Rent until both parties have time to budget for changes. To accomplish this, the following steps must be followed in sequence:

1. After updating the inventory system, PBS must prepare a revised OA using the reason code Remeasurement of Space to create an increment in the OA Tool. This increment must use the change in square footage (rather than the new square footage values) to achieve the remeasured RSF and USF. The OA Tool automatically recalculates the rate to keep the annual Rent steady and applies it to the entire remainder of the shell term.
2. Immediately upon finalization of the increment, a replacement OA must be prepared and finalized to limit the new rate adjustment term to the remainder of the time needed to budget. The reason code for this OA is Remeasurement with Shell Rate Update, triggering the mandatory clause that explains the reason, implementation, and term of the remeasurement changes. This revised OA must reflect the full remeasured square footage and reinstate the original 5-year fiscal year appraised rate adjusted for any R/U change for the remainder of the original shell rate term following the time to budget. This version of the OA must be sent to the tenant agency, but it does not require a signature as the Rent Estimate process will capture the new assignment information in time to budget for the future change.

The modification of an OA may occur only once during a 5-year shell rate period when initiated by a PBS-driven remeasurement or maintenance action.

Following the steps above keeps the Rent steady without the need for manual billing adjustment calculations, allows the remeasured square footage to be available in the OA Tool for the Rent Estimate, and provides both PBS and the tenant agency with time to budget for the changes to the assignment due to SDM initiatives.

As an alternative to the above policy, PBS may send a revised OA to the tenant agency with the modified USF. If the tenant agency agrees to the USF change with a signature on the OA, then the new data may be used immediately. If the tenant agency will not sign the OA, then PBS must follow the above methodology, as PBS may not increase or decrease the annual

Rent that was projected for the Rent Estimate without tenant agency consent.

#### 3.4.4. **Space Errors Identified During SDM Processes**

PBS is to update the OA immediately in the case of space assignments for blocks of space that have been occupied by, but not assigned to, a tenant agency (i.e., squatting) or for blocks of space that have been assigned to, but are not occupied by, a tenant agency. There is no need to wait until the next Rent Estimate budget year to collect the correct Rent. Corrections should take effect retroactively to the date of the error, but no earlier than October of the current fiscal year. The new version of the OA does not require signature under these circumstances.

#### 3.4.5. **Evaluation of Building Appraisal Following SDM Change**

Before preparing the replacement draft OA, PBS must consult the regional appraiser to do an evaluation of the appraised FAR rate for the building to determine if the measurement changes impact the original FAR rate. This is necessary because appraisers may make rate adjustments based upon the difference between R/Us in PBS buildings and R/Us typical in the marketplace. The regional appraiser decides whether the building rate needs to be adjusted in light of the new numbers for the rentable or usable area. In the event of a rate change, enter it immediately into the Appraisal Data System (ADS) for use in new assignment rate setting. The adjustment is reflected in the current and future fiscal years.

#### 3.4.6. **Joint Use Space Errors Identified during SDM Processes**

At the beginning of each fiscal year, the new joint use rates are entered into the OA Tool and the square footage and annual charges for joint use amenities are recalculated. Errors found in the joint use assignments during SDM processes must be corrected in the middle of the fiscal year if the adjustment lowers the rental payment of the tenant agency. If the error would raise the payment, the adjustment must not be made until the beginning of the next fiscal year.

In the case where joint use amenities are added or removed from a building, PBS must send tenant agencies a revised OA (not

requiring tenant agency signature). An ad hoc clause must clearly articulate the reason for the change.

### 3.4.7. Execution of Tenant Agency-Initiated Space Changes

If a tenant agency requests an increase or decrease to its space assignment, e.g., the tenant agency takes on space that was previously a hallway, the tenant agency receiving the benefit from the additional space receives an updated OA with the new square footage and the new rate, as determined by the appraiser. This is done by modifying the existing OA through an incremental version so that the new square footage, new R/U factor, and new rates apply only to the new space. All other tenant agency OAs remain unchanged until the OA shell rate or the OA term expires, whichever occurs first. Note that the new R/U factor is only used when the tenant agency's space is expanding.

### 3.4.8. General Storage Assignment – Pricing Implication

The NBSAP defines certain spaces as general storage space, or GNS, which are eligible for a discount. PBS is responsible for determining when space meets the GNS space type definition. The GNS space type is applied to space that meets the definition in the NBSAP and meets one of the following criteria:

- The space is not within general office space and the space is not completely built out to shell, or
- The space must have permanent conditions, obstructions, or protrusions below the ceiling height and into or within all or a portion of the space that do not allow for general office use and it would be cost prohibitive to build out the space to office standards.

If there is uncertainty in the assignment of this space type, the region is to obtain the final GNS classification decision from the PBS Office of Real Property Asset Management.

Space assignments that meet the general storage definition as of the issuance of this edition of the PDG are charged a reduced fully serviced Rent rate described in sections 3.5.4 and 3.7. General storage space must be classified in the inventory system as GNS. Space that is used by a tenant agency as storage and was built out to office standards is assigned a total office (TTO) space type. The discount is not to be applied to TTO space.

## 3.5. Pricing Standards – Building Shell Rent

### 3.5.1. Building Shell Definition

Building shell is the complete enveloping structure, the base building systems, and the finished common areas of a building that adjoin the tenant areas.

The building shell definition is further detailed in Table 3-2. Shell Definition. The definition of TIs is found in section 3.6.1. The separation of building shell and TIs is observed in commercial real estate practice. The PDG provides a standard definition of the elements of the building shell to support regional consistency in the application of TI allowances. In addition to building shell and TIs, there may be building security requirements that are a separate capital investment in the property. These security costs are not included in the building shell or TI for allowance or rate setting purposes as discussed in section 3.10.2.B.

PBS must estimate the cost of the design and construction of the building shell elements for construction projects, both above and below prospectus level, including courthouses and LPOEs. Any demolition costs associated with backfill occupancies are included in the building shell, as are any necessary replacements of shell elements.

While the shell definition is not a prescription for how PBS should design buildings or engineer base building systems, it establishes a comprehensive market-based boundary between building shell and tenant work. If a tenant agency desires upgrades to base building systems above design standards for federal construction, the upgrades must be identified in the construction contract to obtain a separate price from the building shell, as these tenant agency-driven upgrades to building shell are considered TIs. See section 3.6.9 for further discussion on tenant agency-driven shell enhancements.

Although some of the specifics may vary from the practice of local real estate markets, PBS must require shell items to be priced as nationally defined so that the distinction between shell and TIs is consistently applied for all PBS tenant agencies across the country.

The building shell includes the following items for the base building and tenant areas. Specifics for TIs are located in section 3.6.2.

Table 3-2. Shell Definition

Base Building	Tenant Areas
Base structure and building enclosure components (windows with exterior finishes) are complete.	Broom-clean concrete floor slab, with level floor not varying more than ¼ inch over 10-foot horizontal run in accordance with American Concrete Institute Standards.
Base building electrical and mechanical systems (e.g., central fire alarm, chiller plant, cooling tower) are complete and functional.	Gypsum wallboard, spackled and prime painted, on exterior perimeter walls and interior core walls, is installed.
All common areas, such as lobbies, elevators, fire egress corridors and stairwells, garages, and service areas are complete. (Circulation corridors are provided as part of the base building only on multi-tenanted floors where the corridor is common to more than one tenant. On single tenant floors, only the fire egress corridor necessary to meet code is provided as part of the shell.)	2 by 2 feet suspended acoustical ceiling with 2 by 2 feet parabolic fluorescent (or other building standard, such as 2 by 4 feet fixtures) installed in the ceiling grid for an open office plan at the rate of one fixture per 80 USF, is installed.
Building common restrooms are complete and operational.	Common corridor stud walls, without gypsum board on demised tenant premises side and without suite entry door, are installed.
<p>Building cores on each floor with assignable space contain the following: tappable domestic water riser, service sanitary drain, sanitary vent, ready for extension to tenant-demised areas.</p> <p>Electrical power distribution panels and circuit breakers available in an electrical closet, with capacity at 277/480 volt and 120/208 volt, 3-phase, 4-wire providing 7 watts per USF.</p> <p>Designated connection point to the central fire alarm system for extension to tenant-demised areas.</p> <p>Distribution backboard within a wire closet for connection to tenant's telephone lines. Vertical conduit (empty sleeve) through building core, available for tenant wiring/cabbling.</p>	<p>Central heating, ventilation, and air conditioning (HVAC) systems are installed and operational, including, as appropriate, main and branch lines, variable air volume boxes, dampers, flex ducts and diffusers, for open office layout. Conditioned air through medium pressure ductwork at a rate of .75 cfm per square foot of usable area is provided.</p> <p>Sprinkler mains and distribution piping in a protection layout (open plan) with heads turned down, concealed with an escutcheon or trim plate, are installed.</p>

### 3.5.2. The Firewall Between Building Shell and Tenant Improvements

Both in terms of capital funding and in billing, the distinction between building shell and the TI area is critical to the effective operation of PBS pricing policy. With one exception (discussed below), the distinction between building shell and TI constitutes an impermeable barrier or "firewall" across which funding cannot shift. The budgets for the TIs and building shell are independent and are not to be intermingled. If PBS constructs a building shell for less than the approved and authorized budgeted amount, the savings are available for reprogramming to other projects. Savings are not available to defray additional TI costs. Conversely, if the bids to construct the building shell exceed the project budget for the shell, TI allowances may not be used to make up the difference. Rather, PBS must seek additional funding or examine the specifications for ways to lower costs.

Exception: Only in the case of a prospectus-level project for which there is a cost overrun on the purchase of the site or on the construction of the shell may funds be moved from the TI allowance budget to the building shell budget, and then, only with the tenant agency's consent. Since the prospectus does not compartmentalize the budgets, and since the TI work is still to come, it is possible that the entire project can still be completed within the authorized funding. Seeking to lower the TI budget should only be undertaken after other remedies, including plans and specifications reviews, bid descoping, and value engineering have been examined.

### 3.5.3. Shell Rent

The shell and base year operating rent, also known as the fully serviced Rent, is based on a FAR appraisal. Shell and base year operating rents are established for 5-year periods. The shell rent remains level during the entire 5-year period. The base year operating rents are escalated each year. See section 3.7 for procedures for operating rent escalation. At a minimum, a new FAR appraisal is conducted every 5 years. More frequent FAR appraisals may be obtained, as needed, at a frequency of no more than one per 12-month period, to reflect changing market conditions, new tenants, varying schedules in the OA expirations, or for backfill of vacant space.

Fully serviced Rent rates may not be preset for periods longer than 5 years. OAs may be written for longer terms, as the standard term is 10 years. A standard clause in the OA states the fully

serviced Rents are reappraised every 5 years. When new market-based shell rents are issued for continuing occupancies, PBS applies the shell rate to all occupancies in the same building that have OAs expiring in that year. Market-based rents for continuing occupancies consist of fully serviced shell rent including the amortized TIs, also known as an as-is rate. PBS does not distinguish between occupancies for building-based amenities (e.g., floor elevations, street frontage, window views). PBS assigns tenant agencies specific locations within a multi-tenanted building; tenant agencies do not individually choose which floor or suite they occupy.

PBS has an obligation to maintain and, as needed, replace all elements included in the definition of building shell. A completed ceiling is part of the building shell, therefore PBS re-lamps building standard lights in tenant agency space and replaces broken ceiling tiles without additional charge to the tenant agency. PBS will also, on an as-needed basis, paint and recarpet common areas, but not tenant agency areas.

#### 3.5.4. General Storage Pricing

A reduced rate is applied to space assigned as GNS space (see definition in section 3.4.8). A GNS assignment implies the space has diminished use that would prohibit the space from otherwise being used as office space.

The policy for pricing the shell and base year operating rate for GNS space within a federally owned building is to set the rate at 50 percent of the fully serviced FAR rate for office space. The same FAR appraisal must be used for the general storage space as the office space in the tenant agency's assignment.

The OA tool must be used to blend the rates automatically for the TTO and the GNS space; the blending must not be handled manually. The standard optional clause must be added to the OA indicating the GNS discounted space.

### 3.6. Pricing Standards – Tenant Improvements

#### 3.6.1. Tenant Improvements Definition

TIs are the finishes and fixtures that typically take space from the shell condition to a finished, usable condition. The resulting space is complete, meets applicable building codes, and meets the tenant agency's functional needs.

It is commonplace for there to be building standards for TIs (such as glass or solid wood for suite entry doors, a restricted color palette for paint and carpeting, a certain kind of blind for exterior windows). The existence of building standards does not mean that PBS covers these as part of building shell—they are still TIs. The standards simply represent restrictions on what the tenant agency can elect to do within the tenant space.

Similarly, standards identified in design guides for LPOEs, courthouses, and other federal facilities are not part of the building shell simply because they are called “standards.”

### 3.6.2. Typical Tenant Improvements

TIs include:

- Electrical wiring, outlets, and horizontal conduit, including cable trays and hooks, within the tenant agency’s demised premises and to the building core. Telephone jacks, data jacks, and horizontal conduit, including cable trays and hooks, within the tenant agency’s demised premises and to the building core. (Telephone and computer wiring and cabling may be funded within the TI allowance or provided by the tenant agency.)
- Carpeting or other floor covering; raised access flooring.
- Plumbing fixtures within the demised premises and all lines connecting to the building core—except for common bathrooms.
- Partitioning and wall finishes.
- Doors (including suite entry), sidelights, frames, and hardware.
- Millwork.
- Fire alarm wiring from building core to tenant agency space and then within tenant agency space; pull stations; strobes; annunciators; and exit signage within the demised premises.
- Thermostats.
- Window treatments.
- Supplemental power, cooling or heating (above the open office plan layout capacities provided in the base building); higher rates of air exchanges (if it entails additional or upgraded air handling equipment); pathogen control systems; and all other special HVAC components required by specific tenant agency needs, and tenant agency program equipment (such as fume hoods and exhaust systems).

- Adjustment or repositioning of sprinkler heads to avoid conflict with tenant agency's particular office partition layout; additional sprinklers required by local code to meet tenant agency's layout, or ceiling grid adjustments and consequent repositioning of sprinkler heads to the center of ceiling tiles.
- Tenant agency signage in the common corridor and within the tenant agency's leased area. (An overall tenant directory in the building lobby is part of building shell.)
- Changes (moves) or additions to the open-plan lighting pattern, or to the open-plan HVAC distribution network (e.g., additional ductwork, ceiling diffusers) to accommodate individual office layout.
- Upgrades or changes to building standard items, such as plaster or vaulted ceilings, specialty lighting, and upgraded ceiling tile.
- Structural enhancements to base building to support unconventional floor loads, such as a library.
- Private bathrooms, private elevators, or staircases within tenant agency space specifically requested by the tenant agency for its use.

### 3.6.3. Tenant Improvement Allowance

The TI allowance is the funding source that enables the space to be built out for occupancy to meet a tenant agency's specific requirements. To accommodate the varying space needs of tenant agencies, the TI allowance has two components—general and customization, defined in sections 3.6.4 and 3.6.5, respectively.

The TI allowance:

- Provides tenant agencies with flexibility, choice, and savings incentives.
- Is commonplace in the commercial real estate market.
- Allows PBS to budget more reliably since respective obligations are defined at the outset.
- Enables separate treatment of TI costs in the Rent, allowing clear tracking of amortizations.
- Helps PBS and tenant agencies comply with appropriations law and with the Office of Management and Budget (OMB) requirement that PBS set limits on amounts that can be amortized in Rent.

Special equipment (e.g., private elevators, supplemental cooling units, uninterruptible power sources) provided above the building shell at the tenant agency's request and for tenant agency use is chargeable against the TI allowance. In addition, PBS may request reimbursement for additional utility consumption and operation and maintenance for the special equipment (see section 3.7) with the exception of private elevators and lifts. PBS will not seek reimbursement for operation and maintenance of these two items. The eventual replacement or upgrading of the equipment is at the tenant agency's expense—including major repair or replacement of private elevators and lifts; it may also be funded by PBS, subject to availability of funds, as a TI and amortized into the tenant agency's Rent.

The following provides information on the specific application of the TI allowance to different space assignments.

- **Initial occupancies** (including expansions) – these assignments are new to a specific tenant agency in new space that is in shell/first generation condition. (See the next point on backfill occupancies for relet/second-generation space.) For initial occupancies, PBS is obligated to provide the full TI allowance (both the general and customization components) in accordance with the tenant agency's assigned tier or functional space estimates—see sections 3.6.6 and 3.6.7. Tenant agencies may not buy down the general allowance in first generation space through use of an RWA; to do so would be an improper augmentation of PBS' appropriation. If PBS does not have funds available, PBS must work with the tenant agency on the timing of the initial occupancy to schedule the project when funding is available. See section 3.6.10.A for lump-sum payment options available to tenant agencies that want to minimize their TI rent obligation.
- **Backfill occupancies** – these assignments occur when PBS has existing, built-out space (relet/second-generation space) that is vacant and available for a new tenant agency. The full TI allowance or functional space estimate may be provided subject to the availability of PBS funds. See section 3.2.3 for more details on pricing flexibility in backfill occupancies and section 3.6.10.A for lump-sum payment options available to tenant agencies that want to minimize their TI rent obligation.
- **Midoccupancy/postinitial occupancy request for TI** – these assignments occur during the occupancy term outlined in the OA. PBS is not obligated to provide a tenant agency a TI allowance at any time during the occupancy term after initial space alterations are complete. Tenant agency-

initiated space changes, replacements, or enhancements after initial occupancy during the same OA term are typically funded by the tenant agency. If the tenant agency desires to remodel/realign space at any time during the OA term, the cost for the TIs, as well as the cost to replace shell elements demolished or removed in the course of the remodeling work, are the tenant agency's responsibility. If asbestos is present in shell elements, but is nonfriable and contained/sealed with a management plan in place, and if the asbestos is disturbed by a tenant agency-driven alteration, the cost to abate the asbestos is the tenant agency's responsibility. However, if funds are available, PBS may fully or partially fund and amortize a tenant agency request for TIs.

- **Continuing occupancies** – these are assignments beginning a new OA term upon the expiration of a prior OA term in the same space. Provided funds are available in the PBS budget, PBS may, at tenant agency request, fund and amortize minor alterations or carpet and paint. See section 3.2.2 for more details on continuing occupancies.



**Note:** The TI allowance is set in accordance with the tenant agency's tier (see section 3.6.6) or based on a cost estimate to provide functional space (see section 3.6.7). The TI allowance for warehouse buildings is set differently (see section 3.6.13).

### 3.6.4. General Component of Tenant Improvement Allowance

The general component is a dollar amount per USF set to cover the cost of typical office space finish components such as doors, partitions, carpeting, electrical and telecommunication outlets, or other standard “work letter” items. The general component, currently \$38.95 per USF, takes the space from shell to “vanilla” office space. This allowance is set nationally and indexed to local construction costs. The general TI allowance is provided by PBS to all prospective tenant agencies in initial first generation occupancies. (See section 3.6.10.B for an exception in relet space.)

The PBS Office of Real Property Asset Management annually reviews the general allowance for Washington, D.C., the index city, and issues a new rate if market conditions warrant. The general allowance is adjusted for other major cities and localities by multiplying the index city amount by the appropriate local construction cost factor. The local construction index is also

reviewed each year and adjusted only when it is determined the index has increased.

### 3.6.5. Customization Component of Tenant Improvement Allowance

Like the general component of the TI allowance, the customization component is also a dollar amount per USF, but it is tailored to individual tenant agencies. This component is intended to cover special items, preparations, or finishes that are not typical to all office space, but are necessary to customize the space for a particular tenant agency. The customization component takes the space from vanilla office space to space specifically designed to function for a particular tenant agency. Examples of customization items include custom cabinetry or millwork, laboratory countertops and fume hoods, private restrooms, raised access flooring, upgraded ventilation for high occupancy uses, slab-to-slab walls, broadcast quality lighting, and sound attenuation.

PBS has created a series of customization tiers—tier 0 to tier 6. Each tier is equal to one-tenth of the value of the general allowance. Tier 1 is 10 percent above the general allowance, tier 2 is 20 percent above the general allowance, and so on. Each tenant agency and bureau is assigned a tier based upon a computation that takes the blended average of the cost to PBS to construct all space assigned to that tenant agency or bureau. The blended average is not an attempt to cover all costs, but to provide equivalent value for what PBS had provided under the previous pricing practice. The establishment of general and customization allowances is not intended to eliminate the need for lump-sum RWA payments. See section 3.6.12 for procedures to raise a tenant agency's tier.

Customization allowances are not adjusted because they are a percentage of the general allowance, which is already adjusted for inflation and indexed to local construction costs. Adjustments to the general allowance automatically translate into proportional adjustments to the customization allowance.



**Background Note:** In 1996, PBS established the customization tiers through an analysis of all space assigned at that time. The analysis considered the various space classifications and their construction cost multipliers to develop a blended average. The blended average represented what PBS would have spent to build out a particular tenant agency's space. The blended average did not include what the tenant agency might have funded through lump-sum RWA payments. The calculation

of a customization tier for each tenant agency replaced, in the form of a monetary allowance, what PBS previously provided as standard alterations for a set of special space classifications.

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### 3.6.6. **Setting the Tenant Improvement Allowance by Tenant Agency Tier**

Follow these steps to set the general and custom TI allowance based on the tenant agency's tier:

1. Determine the general allowance as indexed for the metropolitan area for the proposed project.
2. Look up the tenant agency's customization tier, found in the OA tool.
3. Using the customization tier, determine the tenant agency's customization allowance, based on the indexed general allowance.
4. Add the customization allowance to the indexed general allowance for a total TI allowance.
5. Multiply the total TI allowance by the USF to be assigned to the tenant agency.

### 3.6.7. **Setting the Tenant Improvement Allowance by Functional Estimate**

The general and customization TI allowances are not to be used for projects when the following are available:

- An extensive development of a space program of requirements (POR) for the tenant agencies; and
- PBS cost estimates (using established national benchmarks or other measures that determine the cost estimate for functional tenant space based upon that POR).

For these projects, the TI allowance is set in accordance with the benchmarks or cost estimates described above. For instance, in the case of a new courthouse, PBS relies upon a benchmarking process to estimate the dollars needed to design and construct not only the building shell, but also the tenant agency spaces. Therefore, instead of assigning the Administrative Office of the United States Court (AOUSC) and other federal tenant agencies a TI allowance consisting of the general plus their assigned customization tier, it is appropriate to set the TI allowance to the cost of the benchmarks. Functional estimates are also applicable when a particular block of space is not typical for a tenant agency

and additional buildout is required to meet the functional needs of that space type. For example, it would cost more to do a renovation and alteration project of only a courtroom or cellblock without the offsetting lower cost of office space buildout.

In the case of nonprospectus projects, an extensive development of space POR or benchmarks may not be available. However, PBS is to provide the tenant agency with physical functional space that meets its operational needs, based on PBS' cost estimates. This still requires providing a monetary allowance so that the tenant agency can make choices between buildout elements, as long as the space is finished, functional, and compliant with all applicable building codes.

The standard for determining the revised TI allowance is that it covers the cost of basic functionality (operational requirements) for the specific space's use. The standard applies whether PBS contemplates a revision to a TI allowance in accordance with benchmarks or a cost estimate to deliver functional space, or as a consequence of a tenant agency request. The standard is not based on the total cost of TIs. The distinction is functionality versus finish, fixture, and feature enhancement. PBS is not obligated to ensure all aspects of a tenant agency's design guide or design guidelines are incorporated into its TI allowance. A tenant agency's design guide typically provides for a wide degree of latitude in the selection (and value) of finishes and fixtures for tenant space. PBS does not accept design guides as a substitute for the benchmarking process or the judgment of regional portfolio directors in setting allowance levels.



**Note:** If the revision to the TI allowance as described above results in an increase to the amount of the TI allowance set by the tenant agency's tier, a regional pricing deviation is required defining the basis for the adjusted TI allowance.

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### 3.6.8. **Amortization of Tenant Improvement Allowances**

For occupancies where PBS funds the TI allowance, the TI amount expended is amortized in Rent. The standard term for amortizing TIs is 10 years. Term adjustments may be made for a specific occupancy or tenant agency.

There are two rules for limiting amortization terms for TIs:

1. The amortization term must not exceed the economic life of the improvements.<sup>1</sup>
2. The amortization term must not exceed the term of the OA.

Tenant agencies may shorten the amortization period, but may not lengthen it beyond the above terms. Multiple amortization periods can be entered into a tenant agency's OA within the OA Tool, but this is done in special cases only (such as phased projects). The amortization must follow the two rules above for limiting amortization terms.

Upon expiration of the TI term, the periodic payment amortizing the TIs ends, and the Rent is reduced to an as-is appraised rate. With the amortization of TI costs over a specified period, PBS recovers the initial capital invested in those improvements, plus interest, but nothing more. Tenant agency Rent payments do not compensate PBS for periodic refreshing or replacement of TIs. It is the tenant agency's obligation to pay for any additional or new TIs. If funding is available, PBS may offer to pay for new TIs and amortize the TI into the tenant agency's Rent.

The interest rate for the amortization of TIs over any period or term is the 10-year Treasury bond rate, plus 12.5 basis points. The resulting rate is also known as the Federal Financing Bank (FFB) rate, or the interagency borrowing rate. Although this rate varies daily, PBS Office of Real Property Asset Management sets the rate in the spring of each year. Guidance on changing the rate in preliminary OAs will be provided each year at the time of the TI rate annual adjustment. Once an OA is being billed, the TI rate and term are set and remain the same for the amortization period. The current and historical amortization rates for TIs along with the OMB discount rates and inflation factors and prospectus threshold values are posted on the PBS Office of Real Property Asset Management Insite web page.

### 3.6.9. **Application of Tenant Improvement Allowances**

Sections 3.6.4 and 3.6.5 describe the individual TI allowance components (general and customization) and how they are formulated. This section describes how the components are used by tenant agencies to fit out their space.

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<sup>1</sup> The amortization period for courtrooms and chambers assignments can be 20 years, and the amortization period for all other court assignments is 10 years.

Since the tenant agency elects how its space is to be finished, the tenant agency controls the costs of the buildout. If an amount less than the allowance limit is used, the resulting Rent payment is lower. If the full allowance is not used for initial buildout, it is no longer available for future buildout needs. PBS does not monitor the use of the TI allowances to ensure that the general component is used only for office-type finishes and the customization component only for specialty work. The sum of the two components represents the funding available for the buildout the tenant agency elects, as long as the space is finished, functional, and compliant with all applicable building codes.

The TI allowance (general and customization components) may be used only to pay for items that are real property, or which become real property when attached or affixed to the building. The TI allowance is not available to fund personal property, such as furniture, microwaves, refrigerators, artwork, personal computers, audiovisual equipment, televisions for conference rooms, phone handsets, or physical relocation expenses of personal property. PBS lacks the authority to use budget activities that fund the TI allowances for personal property purchases. Modular wall systems that serve as the functional equivalent of drywall partitions and belong to the building owner at the end of the occupancy term may be purchased with the TI allowance.

Tenant agency-driven enhancements to the building shell are, by definition, TIs, not shell elements. If a tenant agency wants to enhance the building shell, such as upgrading the HVAC, adding an elevator, increasing floor loads, or using specialty lighting in tenant areas instead of the building standard fixtures, these costs are chargeable to the tenant agency's TI allowance. Using the tenant allowance to enhance or modify building shell is not a violation of the firewall discussed previously.

In the case of initial occupancy, space planning services through design development and services provided by construction management (CM) firms hired for design development review are provided by PBS as part of the shell rent. The costs of generating construction documents are charged against the TI allowance.

In the case of other occupancies where PBS provides a TI allowance, all soft costs (space planning, design and CM) as well as hard costs (labor, materials, general conditions, overhead, and profit for the general contractor and subcontractors) are charged against the TI allowance.

Tenant agency-driven security features may be funded through the TI allowance as outlined in section 3.6.11. BSAC items are a separate capital investment in the property. This separate

security investment is not included in the building shell or TIs for allowance or rate setting purposes, as discussed in section 3.10.2.

For all design and construction projects in federal buildings, PBS must track the separate tenant agency allowances and what is charged against them for each tenant agency. In the case of multiple tenant agencies, this may involve separate bid packages for each tenant agency's work. However, requiring separate bid packages does not necessarily mean there must be separate contractors; it does mean, however, that contractors must be asked to distinguish between the TI costs for each tenant agency. The breakout of project costs between shell, TI, and security work is required to prepare accurate tenant agency OAs.

### 3.6.10. Lump-Sum Payment Options for Tenant Improvements

In limited circumstances, tenant agencies may make lump-sum payments that effectively lower or replace the TI allowance. This option is available only at the beginning of the assignment or at the renewal of an OA term. Tenant agencies must fund any buildout costs above the TI allowance through a lump-sum RWA payment.

#### A. Lower or Zero Customization Tier

If a tenant agency elects to waive or set the customization allowance lower than what PBS would otherwise provide the tenant agency, whether using the customization tier allowance or an estimate of functional space, the following requirements apply:

- The tenant agency request for a lower or zero customization tier must be made before PBS seeks funding for the project and before the issuance of any contract for the design and/or construction of the TIs.
- The tenant agency may elect to lower the allowance to any value between its assigned customization tier and the general allowance amount.
- The tenant agency's election of a lower TI allowance must be recorded in the OA.
- Once the tenant agency elects a lower TI allowance amount, the amount is fixed.

Once the TI allowance is set, then PBS has agreed to fund the allowance from the FBF and amortize the cost to the tenant agency. If the tenant agency then seeks, before occupancy, to buy down the TI allowance, the lump-sum payment (without interest) must be made through Rent, using a billing adjustment in the OA Tool, rather than through an RWA.

## B. Relet Space

Relet space is second-generation space that already has TIs installed for a prior tenant. This commonly occurs in backfill space when the space is already finished with complete TIs in place. If the tenant agency can substantially use the existing buildout without major modification, then the tenant agency may pay lump sum by RWA to modify the space. As a result, the tenant agency waives all or any part of the general TI allowance. This is allowed because TIs are pre-existing, and the rental rate for the space reflects these improvements (i.e., it is an as-is rate). Therefore PBS has fulfilled its appropriation obligation to provide the tenant agency with the general component of its space.

The choice is the tenant agency's. PBS will still offer the general allowance and the appropriate customization tier or functional space cost to all prospective tenant agencies at the point of initial occupancy.



**Note:** If the pre-existing TIs in the relet space are to be substantially or entirely demolished to make way for new TIs, then the tenant agency may not invoke the right to waive the general allowance. The space will be returned to shell condition before new buildout takes place. In such cases, PBS is required to furnish the tenant agency with the general allowance at a minimum. Tenant agencies may not buy down the general allowance under these conditions, as this would constitute an improper augmentation of PBS' appropriation.

## C. Restrictions on Lump-Sum Payments

Lump-sum payments are subject to the following restrictions:

- PBS does not allow tenant agencies in midoccupancy term to make lump-sum payments for TIs already being amortized. Tenant agencies may not use end-of-year money to reduce future Rent obligations.

- PBS does not accept lump-sum payments to defray future year ordinary Rent obligations, since these constitute prepayment of Rent. Most tenant agencies are barred by fiscal regulation from using current year funds to meet a future year's obligation.
- PBS does not accept lump-sum funding to defray the cost of capital expenses that are inherently PBS' to pay; to do so would constitute an improper augmentation of PBS' appropriation. Therefore, PBS may not accept lump-sum payments from tenant agencies for building shell elements. Tenant agencies may buy down their customization tiers and they may pay lump sum for enhancements to building shell since these enhancements are, by definition, TIs.

PBS may accept lump-sum payments for TIs on only four occasions as outlined in the following table:

**Table 3-3. Lump-Sum Payment Options for Tenant Improvements**

Timing of Lump-Sum Payment	Requirement	Payment Method
At assignment inception	PBS allows the tenant agency to use lump-sum payments to lower the TI, and/or to cover TI costs above the TI allowance	Above the TI allowance – RWA After allowance is set, below the customization tier, but above the general allowance – Rent through OA Tool  For relet space, any part of the allowance – RWA (see section 3.6.10.B for additional detail on relet space)
At the time a tenant agency exercises its right to release space back to PBS	PBS requires a lump-sum amount equal to the outstanding balance (principal only) on the TIs that PBS has been amortizing in the Rent	Rent through OA Tool

Timing of Lump-Sum Payment	Requirement	Payment Method
At any time during the OA term in which the tenant agency wants reimbursable space changes	PBS requires tenant agencies to fund, in full and in advance, the cost of space changes to an existing assignment	RWA
When an expanding tenant agency displaces another tenant agency	PBS requires the forcing tenant agency to pay PBS for the unamortized balance of the TIs of the displaced tenant agency	Rent through OA Tool

Certain lump-sum payments must be made using Rent through OA Tool rather than by RWA. This is necessary because the budget accounts (BA51, BA53, BA54, or BA55) from which PBS normally covers the expense associated with payment are not reimbursable accounts, they are accounts funded by tenant agency appropriations paid to PBS in the form of Rent. Simply stated, any expense that PBS would normally cover from its revolving fund is paid for by tenant agencies through Rent; any expense for which PBS did not budget (e.g., above the allowance limit) is paid for by tenant agencies through RWA. Consequently, the lump-sum payments to buy down the Rent below a tenant agency's customization tier after the allowance is set must be credited to the FBF.

### 3.6.11. Application of OMB Circular A-11 Appendix B to Specific Space Actions

The 2003 changes to the OMB Circular A-11 Appendix B introduced the requirement to apply a specific set of rules and processes to each space or project type (i.e., leased, owned, prospectus, and below prospectus) as it relates to the value of features and enhancements that are built or added for the government's unique needs or special purposes. Each project type and its specifics are outlined below.

### A. Prospectus – Owned

- The TI allowance is to be set in accordance with the benchmarks or cost estimates to provide functional space, not the tenant agency's tier.
- The benchmark or cost estimate must include tenant agency-specific security-related buildout, such as holding cells, sally ports, and special shielding to prevent electronic eavesdropping, necessary for the tenant agency to function. The tenant agency's Rent may exceed high-end market rent, providing the improvements are within the functional standard for the tenant agency.

### B. Nonprospectus – Owned

- The TI allowance is to be set in accordance with the tenant agency's tier or set based on a cost estimate to provide functional space. The tenant agency should be provided (within PBS' ability to fund) the full set of TI allowances at initial occupancy.
- The TI allowance includes tenant agency-specific security-related buildout, such as holding cells, sally ports, and special shielding to prevent electronic eavesdropping, necessary for the tenant agency to function. The tenant agency's Rent may exceed high-end market rent providing the improvements are within the functional standard for the tenant agency.



**Note:** A tenant agency may not pay lump sum for shell and first generation general tenant allowance elements (see section 3.6.10). Also, if a cost estimate is used to determine the allowance, PBS must deliver basic functional space without tenant agency lump-sum payments. If basic functional space cannot be delivered below the prospectus dollar limitation, prospectus authority must be sought.

### 3.6.12. Changing or Appealing a Tenant Agency Customization Tier

PBS assigned each tenant agency, by agency/bureau (A/B) code, to a specific customization tier based on the entire agency's space holdings with PBS (blending office with other types of usage). Consequently, a tenant agency's customization tier may not be

adequate to provide functional buildout for a predominantly special purpose use. Similarly, for a new, predominantly office space use, the general and customization allowances may provide more funding than the tenant agency needs to build out the office space. PBS accepts that, since the allowance tiers were designed to fund a blend of space types (average for each tenant agency), individual requirements will arise occasionally for which the assigned customization tier is inadequate. Regional portfolio directors have the authority, on a case-by-case basis, to raise the tier or otherwise increase the TI allowance when the unusual buildout needs of a proposed occupancy so warrant, or appropriate documentation and information is available to determine the allowance needed to provide functional space. This action must be documented in a regional pricing deviation.

If a tenant agency determines that its assigned nationwide customization tier is inadequate to meet its buildout needs, it may appeal its tier level to PBS Office of Real Property Asset Management. Tier level appeals must demonstrate, through an analysis of several occupancies that the tenant agency or bureau's tier level allowance is consistently and materially less than what is required to provide functional space. An appeal of a tenant agency's tier level is not a Rent appeal and does not follow the Rent appeal process.

### 3.6.13. Tenant Improvement Allowances for Warehouses

The TI allowance for warehouses is 20 percent of the general allowance, as adjusted for locality. If the TI allowance is to be used to construct offices or other habitable or conditioned spaces within a building that is classified based on its predominant use as a warehouse, then the TI allowance is to be used to construct **all** the shell and TIs necessary for that office (or other use). In a warehouse building, PBS charges a warehouse rental rate. There is nothing in that warehouse rental rate that would compensate PBS for the typical shell elements present in office buildings (e.g., bathrooms and other building common amenities, and complete suspended ceilings with lights and HVAC above, in the office area proper). The only way that PBS is compensated for these traditional office shell elements in warehouse buildings is by having all of the costs of the office buildout charged against the TI allowance. The amortization of these TI costs in the Rent returns the capital PBS invested in the nonwarehouse buildout.

## 3.7. Pricing Standards – Operating Costs

Operating rent rates are developed through FAR appraisals rather than actual PBS costs. An exception is return on investment (ROI) pricing, where actual PBS operating expenses may be billed (see Chapter 6 for a full discussion of ROI pricing). The use of appraisal-based FAR operating costs provides tenant agencies with industry benchmarked operating costs. This practice insulates tenant agencies from the risks PBS undertakes in operating buildings.

The appraisal-based operating rent rate for a building classified as general use covers the provision of building services and utilities typical for the operation of an office building. Base year operating rent rates are escalated annually by the OMB inflation factor on the effective escalation month of the OA. As stated in section 3.5.3, the base year operating rent rates are reappraised every 5 years. Standard utility, maintenance, and custodial services are summarized below.

A reduced rate is applied to space assigned as general storage (GNS) space (see section 3.4.8 and 3.5.4). The policy for pricing the shell and base year operating rate for general storage within a federally owned building is to set the rate at 50 percent of the fully serviced FAR rate for office space. The operating escalations apply to this portion of the fully serviced GNS rate.

### 3.7.1. Utilities

Standard utilities are based on a one-shift office operation, Monday through Friday, excluding federal holidays. PBS provides a consistent heating or cooling temperature for 10 operating hours. For buildings with 24 hours per day operation, PBS provides one 10-hour shift, Monday through Friday, excluding federal holidays. Service beyond 10 hours is reimbursable.

The property manager, in consultation with the tenant agencies, determines the 10 hours of standard operation to accommodate the majority of tenant agencies. In certain situations, such as with multi-tenant buildings, PBS is unable to accommodate every tenant agency's varying work shifts within the standard 10 hours of operation. Tenant agency operations above the established 10 hours of operation require reimbursement to PBS.

PBS tenant agencies may use their assigned space and supporting automatic elevator systems, lights, and small office and business machines (including personal computers) on an incidental basis outside of the 10 hours of standard operation without additional charge, unless specified otherwise in the OA. This is subject to limitations required by building control systems or planned outages associated with scheduled system maintenance.

PBS does not charge for incidental utility usage associated with antennas assigned to building tenant agencies. The antenna

charge covers the cost of utility consumption by the antenna operation.

### 3.7.2. Maintenance

PBS maintains all of the following according to applicable laws, codes, regulations, or industry standards:

- Building standard systems and operating equipment for heating and cooling
- Building standard plumbing and electrical systems
- Building standard elevators and escalators
- Building standard safety and fire protection devices, equipment, and systems
- Building exterior
- Sidewalks and driveways
- Parking areas
- Directory board in building lobby
- Building standard entrance and exit door locks and closures
- Other building standard equipment
- Building and floor common areas
- Repair, operation, and maintenance of tenant agency program equipment is funded by the tenant agency through an RWA; see section 3.7.4

### 3.7.3. Custodial Services

PBS provides cleaning for assigned space at a standard comparable to commercial cleaning for similar commercial general use office space. The regional property manager, in consultation with building tenant agencies, determines whether daytime or after-hours cleaning are standard for the building. The standard is set based on the requirements of the majority of tenant agencies (based on square footage). Deviation from the standard requires reimbursement from the tenant agency of the increase in cost, if any. Standard custodial service 5 days a week (Monday through Friday, excluding federal holidays) includes:

- Vacuuming, sweeping, and dusting
- Damp mop and spray buff resilient floors
- Emptying and hauling trash

- Servicing restrooms, lobbies, corridors, and other common areas
- Servicing loading docks and platforms
- Washing windows (at least one washing per year or more as determined by region)
- Carpet spot cleaning
- Snow and ice removal, and lawn and grounds maintenance
- Integrated pest management

### 3.7.4. Above-Standard Services

Tenant agency spaces in a general use building may have operating and maintenance requirements that differ from conventional office space, due either to the particular space use or to the presence of special tenant equipment or fixtures. The following services are provided on a reimbursable basis. Nonpayment will result in discontinuation of the above-standard service.

- Operation and maintenance and additional utility costs related to special tenant agency program equipment or fixtures. Examples include a computer room containing items such as air handling units and/or power distribution module. Spaces such as these are not considered typical office space; therefore, operation, maintenance, and additional utility costs are reimbursable for **all** hours of operation. Private elevators and lifts are not included in this example (see section 3.6.3).
- Utility costs where the tenant agency's requirement is to operate the building's HVAC system 24 hours a day. PBS provides 10 operating hours of HVAC service, 5 days a week, Monday through Friday, excluding federal holidays; therefore, service beyond 10 hours is reimbursable.
- Special cleaning (above office standard).
- Equipment maintenance costs for supplemental air conditioning equipment in conference spaces, computer facilities, laboratories, chemical or film storage, libraries, and other special use space.
- Frequent plumbing service calls for pantries, plumbing fixtures associated with laboratory use, and private bathrooms. Service calls resulting in only incidental expense to PBS are performed at no charge to tenant agencies.

- Uninterruptible power services.

PBS requests additional reimbursement for the costs to service the following space types only when the overall costs to maintain the space exceeds the operating cost component of the Rent for the space type that PBS is already billing.

- Firing ranges
- Sally ports

PBS must consider that in some instances, costs are avoided even while new or different costs are incurred (e.g., firing ranges may be cleaned less frequently than office space, even though each periodic high-efficiency particulate air (HEPA) cleaning is more costly). These offsetting effects must be considered before PBS requires that the tenant agency provide additional operating cost reimbursement. However, PBS does not rebate Rent or process a credit to a tenant agency when the cost of operating expenses, accounting for all differences, is less than the standard Rent charge for operating costs.

Costs of above-standard operating expenses may be billed via the traditional RWA process using the standard RWA form or on the PBS Rent bill through OA Tool. If the RWA mechanism is used, the fixed fee of \$100 or the sliding scale fee is applied in accordance with the RWA policies. If OA Tool is used for billing reimbursable services, the cost of the service must be identical each month. An annual fee, currently \$100 per service rendered, is charged to the tenant agency when billing for reimbursable services on the PBS Rent bill. The process regarding OA Tool billing of recurring reimbursable services is described in section 3.13. Regardless of the payment mechanism, above-standard services are a reimbursable expense. Reimbursement for new, above-standard services requested by the tenant agency should begin immediately.

### **3.8. Pricing Standards – Real Estate Taxes**

PBS is required by law to charge a commercially equivalent Rent for all space and facility needs for its tenant agencies. Market-equivalent shell rents inherently include a provision for expense items not typically found in buildings under federal ownership. Therefore, there is no separate Rent component for real estate taxes in federally owned space.

### 3.9. Pricing Standards – GSA-Installed Leasehold Improvements

This component is not applicable to federally owned space.

### 3.10. Pricing Standards – Security



**Note:** PBS is in the process of renegotiating the 2006 DHS/GSA Memorandum of Agreement (MOA). Once the new MOA is finalized, portions of section 3.10 will be revised as necessary.

Sections 102(b) and 422 of the Homeland Security Act of 2002, Public Law 107-296, 6 USC 101, transferred the Federal Protective Service (FPS) from GSA to the Department of Homeland Security (DHS). In accordance with the Homeland Security Act, FPS provides security and law enforcement services to facilities under the jurisdiction, custody, or control of PBS through an MOA. The current MOA became effective June 1, 2006.

There are three types of security items and charges outlined here and fully defined below:

1. Basic security and building-specific security are provided and billed to tenant agencies by FPS.
2. Building-specific security defined as BSAC charges are for building-specific security fixtures and security equipment provided in a prospectus project funded by PBS and billed to tenant agencies by PBS.
3. Tenant-specific security is funded directly by the tenant agency with an RWA to PBS or security work authorization (SWA) to FPS depending on the type of security provided.

#### 3.10.1. Basic Security

As stated in the MOA Section 11-Pricing Provisions for Security Services, Item A, Basic Security:

“Basic security charges are billed by DHS (ICE/FPS) to all tenants in GSA-controlled space. DHS (ICE/FPS) is responsible for notifying agencies of this rate. GSA will pay DHS (ICE/FPS) the basic security rate only for GSA-occupied space, vacant space in occupied buildings, and out-leased space.”

Basic security for vacant buildings is to be provided and funded on a case-by-case basis as determined between the regional FPS and PBS offices.

The basic security charge is developed by FPS and approved by OMB.

As outlined in the MOA Section 7-Services Provided by DHS (ICE/FPS), Item A, Basic Security, basic security includes the following:

- Law enforcement – patrol and response, criminal investigations
- Megacenter operations – security alarm monitoring and dispatch
- Building security assessments and prelease security surveys – identification of risks and countermeasures
- Security consultation – new construction, major repair and alteration projects, leasing
- FSC participation
- Security assistance – occupant emergency plans (OEPs) and continuity of operations (COOP) planning
- Background suitability determinations for childcare workers

### 3.10.2. Building-Specific Security

Through security surveys and consultations provided under Basic Security, FPS recommends building-specific countermeasures, including contract guards, security equipment, and security fixtures that mitigate security vulnerability. These countermeasures will be implemented, as appropriate, in coordination with the FSC, which includes federal tenant agency representatives, an FPS representative, and PBS representatives.

#### A. Building-Specific Security Charge - FPS

Building-specific security charges are for items funded by FPS that include contract guards and security equipment. Equipment is defined per the MOA Section 7-Services Provided by DHS (ICE/FPS), Item B.2, Security Equipment, as:

“...a security-related item that is not part of a building and easily removable from the building. Security equipment includes, but is not limited to, x-ray machines, magnetometers, closed-circuit television systems and cameras, and intrusion and duress alarm systems. DHS (ICE/FPS) will be responsible for project execution, maintenance, and repair of security equipment.”

As stated in the MOA Section 11-Pricing Provisions for Security Services, Item B.1, Building-Specific Security, with the exception of BSAC charges:

“Building-specific security charges are billed by DHS (ICE/FPS) based on the program costs of DHS (ICE/FPS) for each building or complex and prorated to each tenant by its total occupied space in the building or complex. DHS (ICE/FPS) is responsible for notifying tenant agencies of these charges. GSA will pay DHS (ICE/FPS) only for building-specific security in PBS-occupied space, vacant space in occupied buildings and out-leased space. Building-specific security for vacant buildings will be provided and funded on a case-by-case basis as agreed to by the regional DHS (ICE/FPS) and GSA (PBS) offices.”

**Exception:** If the equipment cost is greater than the prospectus limit or provided as part of a prospectus-level project, then PBS funds, installs, and recovers the cost of the equipment (see section B below). After the equipment is installed and accepted by PBS, its custody is transferred to FPS. PBS bills for the initial capital expense as BSAC and FPS bills for maintenance and repair or replacement through the FPS security billing process.

## B. Building-Specific Amortized Capital Charge - PBS

The BSAC charge is for security items that are a separate capital investment in the property. They are separately priced, identified in the OA, and when funded by PBS, are charged to tenant agencies on their PBS Rent bill as BSAC. This separate security investment is not included in the building shell or TIs for allowance or rate setting purposes. All assignments within the building receive the same rate applied to the amount of space they are assigned plus their share of joint use space.

Security fixtures are identified in the MOA Section 7-Services Provided by DHS (ICE/FPS), Item B.3, Security Fixtures:

“A security fixture is defined as a physical security measure that is part of the building or attached and not easily removable from the building. Security fixtures include, but are not limited to, vehicular barriers such as bollards, gates, pop-up and arm gates, doors, locks, garage doors, parking lot fencing and gates, guard booths (both attached to the building and free standing), and blast-resistant windows. Card readers that serve

solely as a locking mechanism at the building entrance are also considered fixtures.”

Window glazing and progressive collapse are other examples of security fixtures.

The capitalization threshold for building-specific fixtures adheres to PBS’ accounting policy regarding the capitalization threshold for operating equipment, currently \$50,000. If PBS’ capitalization threshold changes, then the threshold for building-specific fixtures will be adjusted accordingly. Security improvements over the \$50,000 threshold are treated as follows:

1. For security equipment (funded by PBS in a prospectus-level project) that is not integrated into the building structure (e.g., magnetometers, x-ray machines, cameras), the amortization period is 5 years.
2. For real property security fixtures added to an existing building, the amortization period is 10 years for those items installed as part of a minor repair and alteration project and 20 years for those installed as part of a major repair and alteration project.
3. For real property security fixtures erected when the building is first constructed, the amortization period is 30 years.

Real property security improvements under the \$50,000 threshold include repair and maintenance of security fixtures and are billed as a maintenance cost component of BSAC. They are not amortized; however, they are tracked over the actual year installed and then recovered over the following year at a flat rate per month. For example, a \$7,200 improvement yields \$600 a month.

The amortization rate for BSAC charges is the 10-year FFB rate, plus 12.5 basis points, which is the same rate used for amortizing TIs.

The BSAC charge has the potential to change annually if security items are added during the year. It is set by PBS at the beginning of each fiscal year. Once the amortization period and cost for current security items are set, they remain until the period has expired. As new security items are added to the building, PBS adds those items to the Rent bill the following year. The maintenance portion of this security charge may also vary from year to year. The amortized capital security charge is, therefore, a varying, but permanent part of the tenant agency’s Rent.



**Note:** Refer to section 3.6.11 for additional security improvements guidance. That section covers the rules and processes for each space or project type as it relates to the value of features and enhancements that are built or added for the government's unique needs or special purposes and related directly to security fixtures.

### 3.10.3. Tenant-Specific Security

Tenant-specific security items are security fixtures, equipment and features that are specific to one tenant agency, requested by that tenant agency and its internal security guidelines and not used in the entire building. The tenant agency funds these security items with an RWA to PBS or SWA to FPS, depending on the items requested.

As stated in the MOA Section 7-Services Provided by DHS (ICE/FPS), Item C, Tenant-Specific Security:

“Tenant-specific security includes additional, reimbursable services and equipment for agencies to meet their HSPD-12 requirements, which include card readers and contractor background suitability determinations. Tenant-specific security also includes other requirements, such as agency-specific contract security guards and the design, purchase, installation, and maintenance of optional security equipment and fixtures. When resources permit, DHS (ICE/FPS) (or GSA for fixtures) may provide these types of services upon receiving funds from the requesting agency. When the work is accomplished by DHS (ICE/FPS), it will coordinate with the GSA property manager and will make any necessary repair for damage to tenant space or the building caused by, or incidental to, installation, maintenance, repair, removal, and replacement of security equipment.”

For more information regarding security items requiring funding by tenant agencies, refer to section 3.6.11.

## 3.11. Pricing Standards – Billing Adjustments

A billing adjustment is a specific financial adjustment (either addition or reduction) included on a tenant agency's Rent bill. Late processing for expansion space is an example of a billing adjustment.

### 3.12. Pricing Standards – Antennas

For purposes of pricing, an antenna is any device of a federal agency located on a public building or on PBS-controlled land, which can be used to transmit and/or receive electromagnetic signals. Antennas are devices for the transmission, relay, or reception of television, AM or FM radio, cell phone, or microwave signals. A tower located on PBS-controlled land is not an antenna; however, equipment attached to that tower that fits the above description is an antenna for pricing purposes.

From time to time, but no less frequently than every 5 years, the PBS Office of Real Property Asset Management commissions a study to establish a charge for antenna sites. The majority of antenna sites used by tenant agencies are priced based on this study. Antenna site charges determined by the study are to be set for the remainder of the current fiscal year. Antenna charges set by the study are escalated annually at the beginning of the fiscal year using the OMB inflation factor. The antenna rate is on a per antenna basis and not on a per-square-foot basis.

The antenna charge may be determined by appraisal in those cases where the market rent is estimated to exceed the established annual charge by 50 percent or more. The appraised FAR rate for the antenna must be based on the prevailing market practice for comparable antenna use, such as where the antenna is owned by tenant agencies who also occupy space in the building. The cost of the appraisal should be taken into consideration in determining whether to set the charge by appraisal.

Generally, if the cost of the appraisal exceeds the estimated annual rental, the established charge should be used. The appraisal is performed every 5 years, with escalation during the intervening years as determined by the appraisal. If escalation is applicable, it will occur at the beginning of the fiscal year.

FPS assignments are not charged for antennas that support building security.

There is no additional charge for antennas in space priced by the ROI approach.

Antenna sites outleased to a private-sector tenant are priced based on local market rates.

### 3.13. Pricing Standards – Reimbursable Services

This PBS Rent bill component is used to recover the cost of reimbursable services that are above standard operating expenses. OA Tool can be used to recover expenses when the cost of the reimbursable services rendered to a tenant agency is identical from month to month. The reimbursable recurring services billed through OA Tool are limited to:

- Overtime utilities
- Enhanced custodial services

- Mechanical operations and maintenance (O&M) - HVAC
- Mechanical O&M - other

To participate in this program, the person who receives the tenant agency Rent bill must agree, in writing, to have the reimbursable services billed to the same Intra-Governmental Payment and Collection System (IPAC) or Billing Office Accounting Code (BOAC) number to which the tenant agency's Rent is billed. Upon receipt of written acceptance, PBS Central Office identifies the tenant agency as a participating agency. PBS documents the reimbursable service agreement between PBS and the tenant agency each year by an updated OA version (see Appendix, Sample Format for Recurring Reimbursable Billing). The billing and services are discontinued automatically at the end of each fiscal year and must be renewed by the tenant agency to continue receiving services and be billed via the PBS Rent bill. PBS charges an annual administrative fee, currently \$100 per service, to the tenant agency for this billing accommodation. The first month's Rent bill containing the reimbursable services cost contains the administrative fee.

The cost for the reimbursable services must be paid from and reimbursed to BA61 (Building Operations). PBS must also confirm that appropriate tenant agency budget authority exists. PBS may not accept reimbursement for any expenses for which PBS receives obligational authority in its appropriation, as this is considered an improper augmentation of PBS' appropriation. The requirement to use and reimburse the appropriate budget account is the same regardless of the vehicle used for reimbursement.

### 3.14. Pricing Standards – Parking

Parking is charged based on a per-space rate as opposed to a per-square-foot rate. The rate per space is established from the most recent FAR appraisal.

PBS distinguishes between structured and surface parking types. Within these two categories, separate rates may be charged for reserved and unreserved parking spaces, if applicable. If this occurs, PBS creates one OA and the OA Tool blends the rate based on the number of spaces at each rate (reserved and unreserved).

Building-specific security countermeasures recommended by the FSC for parking associated with a federally owned building (one building number) are recovered through the BSAC distributed over the RSF in the building. Building-specific security countermeasures recommended by the FSC for a standalone parking structure or surface lot (separate building number) may be recovered through monthly billing adjustments to the parking-only OAs. The BSAC charge for a standalone parking structure or surface lot follows the same pricing methodology as detailed in section 3.10.2, except the percent of the total cost attributed to a tenant agency is based on spaces rather than square footage.

The stipulations of the parking agreements for federally owned buildings are to follow the prevailing practices in the assets' local markets at the time the

agreements are signed. Generally, the prevailing practice in most markets is for annual adjustments of parking rates. If this is the case in the local market for an asset at the time an OA is signed, then the OA is to reflect these adjustments. In some markets, especially a suburban or a soft market, the prevailing practice might be not to charge for parking. In this case, no parking charges are applied.

### **3.15. Pricing Standards – Other Space**

This billing category is used to charge on an annual basis for space types that have no square footage associated with them. Examples include ware yards, boat docks, and helipads. The Rent for these other spaces is determined through a FAR appraisal specific to the use.

### **3.16. Pricing Standards – PBS Fees**

In federally owned space, PBS provides all applicable services equivalent to those covered by the fee in leased space, but with no additional charge beyond the shell rate. PBS accepts the FAR shell rate as compensation for the services described in this chapter. The services listed below are not in sequential order.

#### **3.16.1. Services Provided by PBS**

##### **A. Prospectus Generation**

If the dollar value of the construction project requires a prospectus, PBS works with tenant agencies to identify requirements and perform the necessary analysis, including mandatory financial analysis of lease construction alternatives, to justify the prospectus. PBS, with supporting tenant agency documentation, also defends the prospectus before OMB and Congress.

##### **B. Requirements Development**

PBS offers requirements development services to define requirements for new, expansion, or replacement space. PBS meets with tenant agencies gather facts and analyze tenant agency mission, employee work styles, workflows, personnel utilization, and security needs to prepare a preliminary Needs Assessment. If applicable, PBS may provide professional consulting services, using in-house or contracted staff, to develop requirements.

The deliverable is a comprehensive, formal requirements package that captures the tenant agency's conceptual space

needs. The official formal requirements package plus the development and negotiation of OAs with tenant agencies are also provided in the requirements development stage.

### C. Space Planning

For initial and backfill occupancies, PBS provides design services through design development. Design development drawings show partitions and doors; schematic demolition; voice, data, and electrical outlet locations; finishes; generic furniture layout; and any additional details necessary to communicate the design intent for the purposes of preparing construction documents. They do not contain mechanical, electrical, or plumbing specifications or drawings. They do not include furniture or computer and telecommunication specifications; nor do they contain signage, artwork, keying, or hardware schedules.

Once the construction document stage has begun, tenant agencies are responsible for the design costs for their TI work. These costs are charged against the TI allowance.

An initial submission of the design documents plus two onboard reviews are included. If the following items are requested by the tenant agency, it must fund them with an RWA.

- Additional iterations of layout drawings
- Specification and finish schedules for furniture and equipment (i.e., personal property)
- Extensive program development, such as detailed performance specifications and cost estimates for specialty-type spaces such as laboratories, conference centers, and computer facilities.

### D. Appraisals

When PBS requires an appraisal to determine the value of a property, the PBS shell rent covers the cost of the appraisal.

### E. GSA Legal Staff Support

Legal support includes reviewing and giving counsel on any contractual matters regarding the owned property and improvements.

## F. Occupancy Agreement

PBS prepares and revises OAs throughout the acquisition process and secures necessary signatures from the tenant agency before a site is purchased or the design contract is awarded.

## G. Environmental Studies

PBS conducts Phase I and, where warranted, Phase II environmental studies to protect against contaminants and other risks. The cost of an environmental assessment (EA) or an environmental impact statement (EIS) is funded by PBS as the building owner.

## H. Postaward Project Management Services

The project management services provided in the PBS shell rent are for initial space alterations funded by the TI allowance. For TIs above the allowance or after occupancy commences, PBS provides project management services for space alteration work for a separate fee, discussed in section 3.16.2.

Project management is defined as oversight of the design, estimating, management and inspection, and client relationship efforts for a specific project. PBS may perform these project functions using PBS employees or through contract employees hired by PBS to work as project managers. The tasks include the following:

- Schedule development, review, and enforcement
- Cost estimation (initial project budget estimate of shell, TI, architectural/engineering (A/E) and CM fees)
- Price negotiation of specialty items and change orders
- Milestone and final inspections (not daily inspections)
- Project cost reconciliation
- Followup enforcement so that punch list items are performed
- Space measurement and acceptance

For each project, PBS determines the level of project management oversight required to manage the project.

### **I. Property Management**

PBS provides property management functions comparable to those in the operation of a conventional office building.

### **J. Fire and Life Safety**

PBS assesses the level of fire risk in PBS-controlled space in accordance with PBS policy and applicable national and local codes, prior to and throughout a tenant agency's space assignment.

## **3.16.2. Additional Services Not Included in the PBS Shell Rent**

### **A. Project Management Fee**

When project management services are required for projects with TI work above the allowance or after occupancy commences, PBS charges a fixed 4 percent project management fee for the oversight of the additional TI work. The intent of the project management fee is to cover PBS' indirect project costs nationwide, not necessarily on each project; therefore, it cannot be waived.

The project management fee does not apply to services PBS provides tenant agencies for their physical moves, relocation management, or purchasing of personal property such as telecommunication equipment and furniture. These services are described below in section 3.16.2.B. PBS must negotiate the recovery of those service costs with the tenant agency. Telecommunication wiring and cabling may be funded within the TI allowance or provided separately by the tenant agency—see section 3.6.2. If funded by the TI allowance, the 4 percent fee only applies to the TI costs that exceed the TI allowance.

The project management fee covers indirect project costs, such as:

- Salary and benefits of PBS employees and contract employees hired by PBS to work as project managers when they are overseeing (administering) TI work.
- Business line overhead (regional and field office).

The project management fee does **not** cover direct project costs, such as:

- Contract costs for space programming, design services, construction, or the cost of a CM firm hired by PBS to provide management and inspection on a specific project.
- The cost of PBS employees who actually perform the design or detailed management and inspection of construction work.

For example, the project management fee does not cover the PBS employee's time performing construction management and inspection services, as those costs are directly charged to the project. However, if PBS hires a CM firm, the PBS employee's work is considered oversight and the project management fee covers the employee's time overseeing the CM contract. The direct project costs are applied to the TI allowance or the RWA depending on the stage of occupancy.

The project management fee is applied to the sum of the following direct costs:

- Design and CM contract services for space alteration work
- PBS employees' time actually performing the design or CM work
- Construction costs
- Travel

Generally, PBS does not charge for travel associated with oversight of a project unless the tenant agency requests more frequent site visits than PBS deems necessary. In circumstances where the work site is remote (outside of commuting area), PBS may request that the tenant agency agree to reimburse PBS for the travel expenses (e.g., per diem, air fare, car rental, mileage) of PBS employees overseeing the project, beyond the project management fee. In these cases, PBS must estimate the travel costs, and secure the tenant agency's consent to the charges. Chargeable travel expenses do not include the salaries of the PBS employees overseeing the project.

The project management fee applies to projects as follows:

- **Initial or backfill occupancy** – the project management fee is applied to the value of the TIs over the

TI allowance that is funded by the tenant agency with an RWA. See section 3.6.10 for lump-sum payment options.

- **Postinitial and continuing occupancy** – the project management fee is applied to the total value of the TI work, whether the work is funded by PBS and amortized into the Rent or by the tenant agency with an RWA.



**Note:** The sliding scale overhead charge that covers all nonbusiness-line overhead is applied to the total value (including the project management fee) of all nonrecurring RWAs.

## B. Other Services not Included in the PBS Shell Rent

PBS provides a range of services to support tenant agencies throughout the space acquisition process. Upon request, PBS will make the following GSA resources available to tenant agencies; actual cost for provision of these services is outside of the PBS fee:

- Telecommunication network services and information technology
- Furniture, equipment, and supplies (GSA and private-industry vendor resources)
- Planning and execution of the physical relocation (GSA move contractors)
- Full-service relocation management, including, but not limited to: planning, scheduling, and developing move sequence plans, conducting relocation project management meetings, supervising deliveries and installations
- Special consulting services, such as office art, audio-visual systems, acoustics, records management, copy and mail room services, lighting, specialty security, and signage (GSA expert vendors and suppliers)

Table 3-4. Fee Matrix for Initial Occupancies

Activity	Included in PBS Shell Rent	Agency Responsibility	Notes
<b>Preaward Services</b>			
Prospectus generation	Yes		
Requirements development	Yes		
Space planning	Yes	If exceed baseline	Limited to initial submission plus two onboard revisions
Appraisals	Yes		
GSA legal staff support	Yes		
Occupancy Agreement	Yes		
Environmental studies	Yes		
<b>Postaward Services</b>			
Postaward project management services	Yes, up to TI allowance	For TI costs that exceed the TI allowance, an additional 4 percent project management fee applies	
<b>Services During Occupancy Term</b>			
Property management	Yes	The recurring RWA fee (currently \$100) applies when PBS handles recurring premium services	
Fire and life safety	Yes		

Activity	Included in PBS Shell Rent	Agency Responsibility	Notes
<b>Additional Services Not included in the PBS Shell Rent</b>			
Project management fee	No	For TI costs that exceed the TI allowance or the total value of the TIs, an additional 4 percent project management fee applies (see section 3.16.2.A for specifics)	
Telecommunication network services and information technology	No	Yes	Make GSA resources available; actual costs for provision of these services are not included in the PBS shell rent
Furniture equipment and supplies	No	Yes	
Physical move	No	Yes	
Relocation management	No	Yes	
Special consulting services	No	Yes	

### 3.17. Pricing Standards – Joint Use

Joint use amenities are public good amenities, including, but not limited to:

- Government-provided cafeterias
- Randolph-Sheppard Act blind stands
- Childcare centers
- Fitness centers
- Public Health Service wellness units
- Shared conference rooms
- Credit unions
- Visitor parking spaces

Joint use charges are rents for those amenities, and apply whether or not employees of the tenant agencies elect to use the amenities.

### 3.17.1. Joint Use Charges and User Base

The costs for the amenities are totaled and distributed among all federal users directly in proportion to each user's percentage of federal occupancy. The user base for joint use charges may extend beyond the building housing the joint use amenity. For federal assignments, there are three types of joint use space, identified below:

- **Building** – amenities housed in the building are available only to the tenant agencies in the building.
- **Facility** – amenities are shared among two or more buildings that are designated as a facility within the PBS inventory system.
- **Community** – amenities, such as childcare centers or cafeterias, housed in one building are available to tenant agencies in neighboring buildings. Those buildings must be designated as a community within the PBS inventory system. To be included in the community, the other buildings must be within a reasonable distance to the amenity. Before being included in the community, tenant agencies outside of the building where the joint use amenity is located must be notified in writing of their inclusion in the community, and they must be given enough time to budget for the joint use charge. Time to budget does not apply to tenant agencies that are currently being charged for the building joint use space. When community joint use is assigned, the OA will include a clause identifying the building where the amenity is housed.

Standalone joint use buildings must be designated as facilities or communities or assigned directly to a single tenant agency. The joint use charges then follow the same methodology outlined above.

Regions must conduct periodic reviews of the joint use user base and make adjustments as necessary.

Joint use space charge is a single line item on the tenant agency's Rent bill, although it consists of shell rent, amortized TIs, and operating costs. Joint use charges are subject to escalations. The joint use rate does not include security charges, as those appear separately on the PBS Rent bill.

## 3.17.2. Joint Use Components

### A. Space

The joint use charge is comprised of the following components:

- Shell rate from the most recent FAR appraisal as reflected in ADS for the appropriate fiscal year. If no rate exists, consult the regional appraiser.
- Operating costs from the most recent FAR appraisal as reflected in ADS for the appropriate fiscal year. If no rate exists, consult the regional appraiser.
- An amount equal to the general TI allowance plus a Tier 3 customization allowance amortized over 10 years.

### B. Space – Annual Rate Adjustments

The shell, operating cost, and TI amortization are reset each year at the beginning of the fiscal year using the following methodology:

- **Shell rate** – rate from the most recent FAR appraisal as reflected in ADS for the appropriate fiscal year.
- **Operating costs** – rate from the most recent FAR appraisal as reflected in ADS for the appropriate fiscal year.
- **TI** – the TI comprised of a general and Tier 3 customization allowance is recalculated to reflect the current year TI allowance and amortization rate.

The justification for this pricing methodology is that PBS has the responsibility for continuously updating the space, equipment, and personal property used in childcare centers, cafeterias, and Randolph-Sheppard stands, and so must recover these costs.

### C. Parking

The joint use charge is the rate per space from the most recent FAR appraisal as reflected in ADS for the appropriate fiscal year. If no value exists, consult the regional appraiser.

#### **D. Parking – Annual Rate Adjustments**

The parking rate may be adjusted at the beginning of each fiscal year, if customary in the market, to the parking rate from the most recent FAR appraisal as reflected in ADS for the appropriate fiscal year.

### **3.17.3. Joint Use and the Tenant Improvement Allowance**

Two separate cases exist regarding the use of the TI allowance for the buildout of joint use amenities.

#### **A. Multiple Tenant Agencies in a Building, Facility, or Community**

PBS funds the buildout of the shared amenities. Since the amenities are funded in their entirety, regardless of TI allowance, there is no need to distinguish between an allowance and a tenant agency lump-sum amount. The amenity space is assigned as joint use. PBS also funds the initial purchase, maintenance, repair, and replacement of equipment and personal property in cafeterias, childcare centers, and playgrounds; conference centers and rooms; and provides a shell ready for Randolph-Sheppard stands. The Randolph-Sheppard vendor is responsible for funding the space improvements.

#### **B. Single Tenant Agency in a Building**

In the case of a single tenant agency, defined by one A/B code, occupying a building, the amenities are for the exclusive use of the sole tenant agency and, typically, the tenant agency plays a large role in determining the composition and size of the amenities. The amenity space is afforded the same per-square-foot TI allowance as the tenant agency's other space. The charge is passed entirely onto the single occupying tenant agency as assigned usable space, not as separately charged joint use—with one exception in nondelegated buildings, as described below.

When the amenities are cafeterias, childcare centers and playgrounds, and Randolph-Sheppard stands in single tenant agency buildings, PBS' policy differs between delegated and nondelegated buildings as follows:

- **Nondelegated buildings** – PBS treats cafeterias, childcare centers, and Randolph-Sheppard stands as joint use space for assignment and billing purposes. PBS funds the buildout of cafeterias and childcare centers and playgrounds, as well as the initial purchase and maintenance, repair, and replacement of equipment and personal property. PBS provides a shell ready for Randolph-Sheppard stands and the vendor is responsible for funding the space improvements. PBS recovers these costs through billing the tenant agency an amount equal to the general TI allowance plus a tier 3 customization allowance amortized over 10 years.
- **Delegated buildings** – PBS treats these amenities as extensions of the tenant agency’s space. The amenity space is afforded the same per-square-foot TI allowance as the tenant agency’s other space. The charge is passed entirely onto the single occupying tenant agency as assigned space, not as separately charged joint use. PBS funds the initial purchase of personal property and equipment for cafeterias, childcare centers, and playgrounds, and provides a shell ready for Randolph-Sheppard stands in delegated owned buildings. The tenant agency is responsible for maintenance and replacement of equipment and personal property unless otherwise stated in the delegation agreement. In the rare case of multi-tenant delegated buildings, the joint use amenities are assigned to the tenant agency that holds the delegation.

#### 3.17.4. Joint Use and Warehouse Space

If the space is entered into the OA Tool as the warehouse space type, it is not included in the tenant agency’s pro rata share of space for distribution purposes. No joint use charges are assessed for the warehouse space type in the OA Tool.

### 3.18. Pricing Standards – Rent Concessions

This component does not apply to federally owned space.



## Chapter 4. Move Policy

Tenant agencies in both federally owned and leased space are responsible for funding their own physical moves and telecommunication costs at the beginning and end of their occupancy terms. Within this overall policy, there are several specific conditions, described below.

### 4.1. Tenant Agency Consolidations

When tenant agencies make the decision to consolidate, they must fund all move costs.

### 4.2. Swing Space

When federally owned properties are subject to repair and alteration (R&A) projects, tenant agencies may need to relocate to alternative leased or owned locations, called swing space. Every effort should be made to minimize the number, cost, and impact of such moves on tenant agencies. When renovations are planned to occur at the end of an Occupancy Agreement (OA) term, PBS requires that tenant agencies fund all move costs out to swing space and back to the renovated space. The tenant agency is responsible for the swing space Rent, but not the Rent for the space undergoing renovation.

Tenant agencies in leased or federally owned space do not have a perpetual right of occupancy. The OA confers a right to occupy space for a specific duration. For federally owned buildings subject to R&A projects, PBS can plan for eventual renovations and specify a term in the OA to coincide with these events. The OA should also state that these planned events do not constitute a forced move by PBS.



**Note:** If the tenant agency's buildout needs are extensive or unusually expensive, it may be more feasible to move the tenant agency only once and backfill the modernized building with a new tenant agency. Tenant agencies should be encouraged to limit expensive buildout in short-term swing space. The tenant agency should determine the appropriate finish level for the temporary swing space, as it is responsible for the Rent on that space. (See sections 3.6.6 and 3.6.7 for determining the tenant improvement (TI) allowance.)

### 4.3. Exceptions to Move Policy

There are two exceptions to PBS' general move policy:

1. **Forced move** – one tenant agency is forcing another tenant agency to move from its space before expiration of its OA term. In such cases, the

forcing agency is responsible for costs as described in section 4.4. PBS can be the forcing agency.

2. **Emergency relocations due to disasters or crisis** – in cases of emergency relocations, PBS may fund the moves up front, subject to funds availability (see section 9.3).



**Note:** In some cases, PBS may choose to fund the physical move or provide another incentive (e.g., lower initial Rent upon the tenant agency's return, funding of some TI costs in the swing space) to induce the tenant agency to move to the swing space and back to its original space. This might occur if there is an opportunity to fill or prevent vacant space. PBS, like any private-sector lessor, should review options and make the optimum business decision. Funding tenant agency move expenses or covering other modernization expenses is only warranted in exceptional circumstances.

## 4.4. Funding Responsibilities of a Forcing Agency

A forcing agency is responsible for funding the following costs:

- To the displaced agency:
  - The undepreciated value of any lump-sum payment (through Rent or reimbursable work authorization (RWA)) that the displaced agency made for initial TIs, alterations during tenant agency occupancy in the affected space, and tenant agency-specific security. Straight-line depreciation is to be used with the depreciation schedule equivalent to the original OA term, unless otherwise specified by the lease documents or the tenant agency's OA. The displaced agency may elect to have PBS collect the payment from the forcing agency and apply it to the cost of TIs in its new location. The displaced agency (rather than the forcing agency) is still responsible for refunding any concession taken at occupancy inception (such as broker commission credits) to PBS.



**Example:** A displaced agency contributed \$200,000 in lump-sum payments for TIs at occupancy 4 years ago. The forcing agency now owes the displaced agency the remaining value of the TIs funded by the lump-sum contribution. The value of these TIs has depreciated 40 percent on a straight-line, 10-year depreciation schedule, assuming the tenant agency has 6 years remaining on its OA with an original term of 10 years. The forcing agency owes the displaced agency the remaining value of \$120,000.

- The cost of its relocation, including the physical move, move coordination and relocation, and installation of telecommunications and information technology equipment.

- To PBS:
  - The remaining principal balance on any TIs being amortized in the displaced agency's Rent that the forcing agency does not plan to use. PBS allows a forcing agency to amortize the remaining principal on the displaced agency's TIs only if the forcing agency will use these TIs itself. If the displaced agency's TIs are replaced, the forcing agency cannot finance something that no longer exists. If some TIs remain, the lump-sum amount may be prorated as appropriate. Payment is made as a one-time payment through the OA Tool as additional Rent, not by RWA.
  - Any increase in the displaced agency's overall Rent at its new location, except for any difference in amortized TIs, until the displaced agency has time to budget through the Rent Estimate cycle. The changes may involve shell rent, operating expenses, joint use charges, the PBS fee, or BSAC. The forcing agency is not required to pay for the displaced agency's TIs at the new location. The differential in Rent charges is paid through the OA Tool.



**Note:** TIs are excluded from the Rent differential because control of buildout is with the displaced agency; further, these costs will be amortized so the displaced agency has time to budget through the Rent Estimate cycle for the periodic payments in the out years.

- The displaced agency's Rent from the time the displaced agency vacates the space to the time the forcing agency occupies the space.

## 4.5. Double Rent in the Event of Tenant Agency-Caused Delays

All moves involve mutually agreed schedules for terminating old and beginning new space assignments. These schedules drive other activities, such as lease agreements and construction plans; all of these activities have cost consequences.

If a tenant agency causes a delay from the agreed schedule in a move out of its current location or into its new location, then PBS may charge that tenant agency Rent at both locations.

Tenant agency-caused delays may occur when the tenant agency:

- Changes the scope of the project.
- Fails to make timely decisions on the finish schedule.
- Fails to meet review schedules for the design intent drawings.

It is appropriate for PBS to assess double Rent charges for four principal reasons:

- The tenant agency is the responsible party.
- Failure to assess double Rent removes the incentive for the tenant agency to abide by the schedule.
- Neither the contract fee nor conventional real estate Rents paid to PBS are designed to recoup the costs associated with delays.
- In leased space, lessors routinely accelerate rent in the case of tenant delay; to avoid incurring significant losses, PBS passes through the costs of leased space.

The PBS OA standard clauses contain a provision addressing the double Rent consequence of tenant delay.

## 4.6. PBS- or Lessor-Caused Delays

PBS or the lessor may also be responsible for delays.

- **Lessor-caused delays** – when the landlord creates a delay, no Rent is payable for the period of delay. This happens whether PBS is the landlord (i.e., federally owned buildings) or the landlord is a private-sector lessor.
- **PBS-caused delays** – when PBS creates a delay, no Rent is payable for the period of delay. In addition, PBS may be responsible for costs for additional storage time for furniture, reprourement expense, or additional consulting fees. PBS reimburses a tenant agency for PBS-caused increased costs by providing the tenant agency the equivalent value in free Rent.

## Chapter 5. Tenant Agency Rights and Options

### 5.1. Cancellation Rights

#### 5.1.1. Prior to Contract Execution

PBS provides the tenant agency with a no-fault cancellation (with certain conditions and exceptions) up until PBS executes a lease, purchases a site, or awards a design contract. PBS will make no claim against a tenant agency for any PBS-borne cost related to the normal pursuit of occupancy if the tenant agency withdraws from the project before PBS reaches the point of obligating the government to a contract.

#### 5.1.2. After Contract Execution, Prior to Rent Start

For cancelable assignments only, if a tenant agency decides to cancel its plans for occupancy after PBS obligates the government to a contract and before Rent start, then the tenant agency is liable for the lesser of these costs:

- The 16-month rental obligation had it occupied the space, plus the unamortized balance of the tenant improvements (TIs), or
- In the case of a lease, the lease buyout costs, or
- In the case of federally owned space, the total project costs incurred



**Note:** If PBS executes tenant agency-requested services outside of the services PBS provides as part of the PBS fee (see section 2.15.3) without upfront reimbursement, then PBS reserves the right to pursue reimbursement with the tenant agency if it cancels the occupancy. PBS reserves this right whether the tenant agency canceled before contract execution or before occupancy.

## 5.2. Non-Cancelable Space

Non-cancelable space is characterized by the low probability of PBS finding a backfill tenant due to specific qualities of the space, including:

- Remote or not easily accessible location
- Lease Construction
- Special-purpose use or buildout necessitating significant capital outlays to retrofit the space to a more conventional use
- Unusual term
- Lack of any realistic federal need for the space, other than the requesting tenant agency
- Any other factors that would significantly impair PBS' ability to backfill the space

PBS reviews each space assignment and uses the above criteria to designate space as cancelable or non-cancelable. PBS reduces the fee to 5 percent for leased assignments designated as non-cancelable. Tenant agencies may not volunteer to designate their space as non-cancelable to receive the reduced fee. The decision must be made at the beginning of a leasing action. Space assignments for a lease construction project will be designated non-cancelable unless the space qualities and market conditions support GSA assuming the vacancy risk and a pricing deviation is approved by the Regional Portfolio Director and Regional Commissioner,

The Occupancy Agreement (OA) must indicate that the space is non-cancelable in the first draft of the OA and at the beginning of the OA term. When significant changes occur in a project before the beginning of the OA term, PBS may revisit the cancelable or non-cancelable designation. For example, if the procurement of existing lease space was initially anticipated, but lease construction is required, PBS may change the designation and submit revised OAs for signature. Once space has been designated (or not designated) as non-cancelable, it may not be changed during the OA term. For a subsequent OA term, PBS reviews current market conditions and space qualities before determining whether the space continues to be non-cancelable.

## 5.3. Return of Space

### 5.3.1. Four-Month Space Release Right

With 4 months' written notice, tenant agencies have the right to release space to PBS when all of the following conditions are met:

- There is no longer a need for the space
- The space is in marketable blocks (see section 5.3.2)
- The space is not designated as non-cancelable in the tenant agency OA (see sections 2.15.2.A and 5.2 for definition of non-cancelable)
- The tenant is at least 16 months into their occupancy term

Tenant agencies should submit their written notice to PBS immediately upon their intent to release space. PBS will continue to charge Rent for cancelable space during the first 16 months of an OA term. These Rent charges will be removed if PBS finds a backfill tenant, only to the extent to which the backfill tenant agency's Rent (not including TIs) covers the total Rent obligation of the vacating agency.



**Example1:** Customer provides written notice to release space 6 months into a 5 year cancelable OA. Customer pays Rent for the first 16 months.

**Example2:** Customer provides written notice to release space 14 months into a 5 year cancelable OA. Customer pays Rent for the first 18 months.

**Example3:** Customer provides written notice to release space 20 months into a 5 year cancelable OA. Customer pays Rent for the first 24 months.

If a tenant agency has a continuing space need, but is dissatisfied with its current location and wishes to relocate to a new location, it must notify PBS and afford PBS the opportunity to rectify the situation. If PBS cannot resolve the concern, PBS does not have the right to refuse the return of space. However, PBS may decline to provide the tenant agency with a delegation of leasing authority. To obtain leasing delegation authority a tenant agency must demonstrate to PBS that such delegation is in the government's best interest and does not conflict with any PBS activities in the market.

### 5.3.2. Defining a Marketable Block of Space

Defining a marketable block of space involves consideration of many factors and the unique aspects of each situation. PBS makes the determination. In lieu of a strict definition, the following guidance and examples are provided.

**Table 5-1. Determining a Marketable Block of Space**

Factor	Example/Definition
<p><b>Location and usage</b></p>	<p>A block of space is considered marketable if it can be assigned to another federal tenant agency or to a private-sector tenant (outlease). The space must be accessible from the building's common corridors. However, PBS may not refuse a release just because there may not be a suitable tenant; the space might remain vacant.</p> <p>Conformance with the predominant real estate use pattern is another factor of marketability. For example, a single federal tenant that occupies an entire office building may not return the mailroom and loading dock space. Given their uses, these spaces are marketable only to tenants of the building, but there are no other federal tenants within the building.</p> <p>Conversely, in a multi-tenanted federal building, storage space returned by one tenant agency would be marketable if it is accessible to the other tenant agencies in the building, and PBS should accept the space on 4 months' written notice.</p>
<p><b>Size of space</b></p>	<p>To be marketable, in some cases a block of space must be a minimum size. In a building where the space is of a configuration and size to limit layout to office suites as opposed to individual offices, space is considered unmarketable if:</p> <ul style="list-style-type: none"> <li>■ A tenant agency wants to return a single office bordering on the common corridor, which has no exterior accessibility</li> <li>■ A tenant agency wants to return a series of noncontiguous offices scattered throughout the building</li> </ul> <p>However, offices consolidated into suites would be considered marketable, provided they have exterior</p>

Factor	Example/Definition
	<p>accessibility.</p> <p>If the space is not marketable in its existing configuration, but could be made marketable by constructing a wall to separate it from the relinquishing tenant agency's remaining space or by constructing a separate entrance, then the space may be released if the tenant agency funds the needed alterations.</p> <p>If a tenant agency releases its entire block of space, it is considered marketable.</p>

### 5.3.3. Return of Non-Cancelable Space

Tenant agencies may vacate and return space designated as non-cancelable to PBS; however, they continue to pay Rent, including operating costs, the annual amortized cost for TIs, joint use charges, security, and the PBS fee (if the space is leased). These charges are removed only if PBS finds a backfill tenant, and then only to the extent to which the backfill tenant agency's Rent (not including TIs) covers the total Rent obligation of the vacating agency.

During the vacancy period, it may be possible to reduce Rent for operating expenses. PBS will actively seek a backfill tenant for the vacant space to mitigate the tenant agency's Rent losses.

### 5.3.4. Repayments Upon Return of Space

Before the end of the 4-month notice period, tenant agencies returning space must pay PBS the principal balance remaining on any TIs. See section 2.5.10, Table 2-3. Lump-Sum Payment Options for Tenant Improvements, and section 3.6.10, Table 3-3. Lump-Sum Payment Options for Tenant Improvements for additional information on lump-sum payment options for TIs.

If the tenant agency received free space or any other concession at occupancy inception, the value of the concession attributable to the remaining term must also be repaid by the tenant agency; see the rent concession discussion in section 2.17.

### 5.3.5. Partial Release of Space

If there is an outstanding TI balance after a partial release of space, the unamortized balance of the TI may be reamortized over the remaining space in the OA.

## 5.4. Delegations

PBS is authorized to grant three types of delegations to tenant agencies, one applicable to federally owned buildings and two that are associated with leased buildings:

- Federally Owned Buildings
  1. Operations and maintenance (O&M) responsibility
- Leased Buildings
  2. Administrative Contracting Officer (ACO)
  3. Contracting Officer Representative (COR)

The terms and conditions of the Delegation Agreement control and the pricing policy is applied accordingly. Delegated leases are charged the flat 7 percent<sup>1</sup> PBS fee, unless they are designated as non-cancelable (see section 5.2).

## 5.5. Rent Appeals

Tenant agencies have the prerogative to challenge assignment elements (e.g., service levels, space measurement) that have bearing upon Rent. Before initiating a formal Rent appeal, tenant agencies should request that a PBS regional office review and explain the basis of a Rent charge for a specific space assignment. Such informal requests are not considered appeals.

Terms, including rates to which the parties agreed in an OA, may not be appealed. Therefore, formal Rent appeals must be made before an OA is signed.

### 5.5.1. Formal Rent Appeal Procedures

- **Initial appeal** – a tenant agency filing a written appeal for a particular location or building must develop documentation supporting the appeal and file the appeal with the appropriate regional administrator. The PBS regional office verifies all pertinent information and documentation submitted by the tenant agency. The PBS

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<sup>1</sup> The PBS Fee was revised from 8% to 7% in FY 2008. See Chapter 2.15.2 for exceptions.

regional administrator accepts or denies the appeal and notifies the tenant agency of the ruling.

- **Continuing appeal** – the tenant agency’s headquarters level officials may file a further appeal with the PBS Commissioner if equitable resolution is not obtained from the initial appeal.
- **Final appeal** – a head of a tenant agency may further appeal to the GSA Administrator. The documentation from the previous appeal attempts must accompany an appeal to the Administrator. Decisions made by the Administrator are final.

### 5.5.2. Rent Appeal Conditions

Rent appeals are governed by the following conditions:

Table 5-2. Rent Appeal Conditions

Space Type	Appeal Conditions
<b>Leased space</b>	<ul style="list-style-type: none"> <li>■ Underlying lease contract rent may not be appealed.</li> <li>■ Additional services outside the lease procured by PBS and passed through to the tenant agency, such as utility charges or custodial services, also may not be appealed if substantiated by contract, accounting, or payment documents.</li> </ul>
<b>Federally owned space – full-service shell rate</b>	<ul style="list-style-type: none"> <li>■ The fully serviced (shell plus operating) rate is established through a fair annual rent (FAR) appraisal, which approximates the market rate for comparable space at the time of the appraisal. The appraised FAR rate must exceed comparable commercial rates by at least 20 percent (in the same unit of comparison) to be eligible for appeal.</li> <li>– The tenant agency is required to compare its assigned space with other spaces in the surrounding community that:               <ul style="list-style-type: none"> <li>• Reflect the size of a typical market floor plate</li> <li>• Are comparable in quality to the space provided by PBS</li> </ul> </li> </ul>

Space Type	Appeal Conditions
	<ul style="list-style-type: none"> <li>• Provide similar service levels as part of the charges</li> <li>• Contain similar contractual terms, conditions, and escalation clauses</li> <li>• Represent a lease transaction completed at a similar point in time</li> </ul> <ul style="list-style-type: none"> <li>- The tenant agency must use market data that was available when the Rent rate was developed for Rent Estimate purposes. Data and supporting documentation from at least three comparable leases is required to obtain an indication of FAR value and to demonstrate that the market rental value differs from the assessed charge. The most effective method to determine an indication of rental value is with a separate appraisal of the FAR for the subject property. An appraisal is required to appeal PBS' Rent charge.</li> </ul> <ul style="list-style-type: none"> <li>■ When shell rent in federally owned space is established on the basis of return on investment (ROI) at the inception of an OA and the tenant agency signs the OA, the ROI rate may not be appealed later.</li> <li>■ Components of Rent that are established based on actual costs, e.g., amortization of TIs and PBS-provided security charges, may not be appealed.</li> </ul>
<p><b>Federally owned space – structured and surface parking rate</b></p>	<ul style="list-style-type: none"> <li>■ The structured and surface parking rates are established through a FAR appraisal. The FAR rate must exceed comparable commercial rates by at least 20 percent (in the same unit of comparison) to be eligible for appeal.</li> <li>■ The tenant agency is required to compare its assigned parking spaces with other parking spaces in the surrounding community that: <ul style="list-style-type: none"> <li>- Have characteristics and quality comparable to the parking provided by PBS</li> <li>- Provide similar service levels as part of the charges</li> <li>- Contain similar contractual terms, conditions, and escalation clauses</li> <li>- Represent lease transactions completed at a similar point in time, and</li> <li>- Represent similar parking arrangements available in the market</li> </ul> </li> <li>■ The tenant agency must use market data that was available when the parking rate was determined for Rent Estimate</li> </ul>

Space Type	Appeal Conditions
	<p>purposes. Data and supporting documentation from at least three comparable leases is required to obtain an indication of FAR value and to demonstrate that the market rental value differs from the assessed charge. The most effective method to determine an indication of rental value is with a separate appraisal of the FAR for the subject property. An appraisal is required to appeal PBS' parking rate charge.</p>

## Chapter 6. Return on Investment Pricing

Return on investment (ROI) pricing is a means of pricing that may be employed when the fair annual rent (FAR) appraisal-based rental rate does not meet PBS' return objective—also known as the hurdle rate—currently 6 percent. The hurdle rate is a measure set so that all PBS assets are recovering the minimum cost of ownership and reinvestment. The rate is periodically reviewed at the national level and may be adjusted. ROI pricing may also be applied through mutual agreement with a tenant agency, as with the Administrative Office of the United States Courts (AOUSC). The following table summarizes the differences in the application of ROI pricing for federally owned and courthouse occupancies.

**Table 6-1. ROI Pricing - Federally Owned versus Courthouses**

Component	Federally Owned	Courthouses
OA term	10 years	20 years
Occupancy rate	95 percent	100 percent
OMB discount rate	10 year rate	20 year rate

The remainder of this chapter details the application of ROI pricing to federally owned buildings, courthouses, and land ports of entry (LPOEs).

### 6.1. Federally Owned Return on Investment Pricing

This section addresses ROI pricing for federally owned buildings. PBS' preferred method of determining Rent for its federally owned properties<sup>1</sup> is by FAR appraisal, which approximates local market rates. ROI pricing is a means of pricing that may be used when the FAR rate does not meet PBS' minimum return objective.

A building is a candidate for ROI pricing when the FAR rate does not meet PBS' return objectives—also known as the hurdle rate—currently 6 percent. To determine whether a building is meeting PBS' return objective, the region must conduct a hurdle rate test, detailed in Section 6.1.1.

<sup>1</sup> For purposes of the ROI discussion in this chapter, “federally owned properties” refers to buildings under GSA’s jurisdiction, custody, or control not assigned to AOUSC or designated as LPOEs.

ROI pricing may be applied in the following situations:

- **New construction** – PBS is expending capital to construct a building and the projected FAR rate does not meet PBS’ return objective. The decision on whether ROI pricing is appropriate for a new construction project must be made before submission of the construction prospectus.
- **Substantial rehabilitation** – PBS is expending capital to modernize or substantially rehabilitate FAR-appraised buildings, and the projected FAR rate does not meet PBS’ return objective. The decision on whether ROI pricing is appropriate for a substantial rehabilitation project must be made before submission of the construction prospectus.
- **Existing buildings** – in addition to failing the hurdle rate test, the following criteria must be met to convert a building from FAR-based pricing to ROI pricing:
  - PBS determines that it is in the government’s best interest to retain the building due to extensive buildout or specialized construction that would be too expensive to replicate in leased space.
  - The total rental rate for any tenant agency using ROI pricing is not appreciably more than the total rental rate that tenant agency would pay were PBS to enter into a lease for similar space to house the tenant. The lowest acceptable lease alternative is quality-leased space that meets the tenant agency’s needs, generally existing vacant space in the market or in some cases, lease construction.
  - To satisfy the tenant agency’s space requirement, PBS will retain the asset and make capital investments as needed.
  - The tenant agency’s agreement to pay ROI Rent is documented by a signed Occupancy Agreement (OA).

Once an asset is ROI priced, PBS may not change back to appraisal-based pricing during the OA term. ROI pricing provides the tenant agency and PBS with a predictable rental rate over the occupancy term.

### 6.1.1. Hurdle Rate Test

The hurdle rate test compares the potential net income of a property to PBS’ investment in the shell of the building. The hurdle rate test is contained in the ROI workbook, which is provided by PBS’ Capital Investment and Leasing Program (CILP) on the PBS Office of Real Property Asset Management website.

If a building “fails” the hurdle rate test, i.e., if the return is below PBS’ return objective (currently 6 percent), then it is eligible for ROI pricing. The ROI workbook contains another tool, the ROI

calculation, which must be used to determine the ROI shell rate. The ROI calculation is designed to provide a shell rate that meets PBS' current hurdle rate.

All ROI workbooks for ROI pricing candidates, for conversions of appraisal-based pricing to ROI pricing, and for establishing billing of ROI-priced space must be completed and transmitted to the PBS Office of Real Property Asset Management, along with source documentation for review and concurrence before transmitting OAs with ROI rates to tenant agencies for signature. See Table 6-2. ROI Workbook and OA Signature Requirements - Federally Owned for additional detail.

The following test must be used for all new and continuing ROI occupancies:

### Hurdle Rate Test

- Multiply the first year's FAR shell rate (if it is a conversion, use the as-is rate) net of appraised operating expenses, by 95 percent of the building's total rentable square footage (RSF) (the current fully utilized occupancy rate assumed by the Federal Real Property Council).
- Divide the result by one of the following appropriate values:
  - **For new construction** – the hard and soft costs of construction.

**Hard costs** include:

    - bricks and mortar expense (labor, materials, and equipment)
    - contractor overhead and profit
    - acquisition cost/fair market value (FMV) of the land
    - escalations and other contingencies (e.g., design and construction contingencies applied in calculating the estimated construction cost (ECC))

**Soft costs** include:

    - architectural, engineering, and construction management (CM) services
    - legal services and public hearings
    - feasibility, market, and environmental studies
    - financing, relocation, and site remediation
  - **For substantial rehabilitation** – the FMV of the property (i.e., land and building) plus the rehabilitation expense (see hard and soft cost definitions outlined above).
  - **For properties converted to ROI and continuing occupancies** – the FMV of the property.

**Note:** Exclude the building-specific amortized capital (BSAC) charges (e.g. progressive collapse, blast mitigation, and window glazing) and tenant improvements (TIs) from this calculation.

- If the quotient is less than PBS' hurdle rate (currently 6 percent), the FAR rate does not constitute an adequate ROI for the property and the property qualifies for ROI pricing. PBS may adjust the hurdle rate as necessary.

## 6.1.2. OA Terms and Signature Requirements

The OA term for federally owned ROI buildings is 10 years. The ROI shell rate is fixed for 5 years. After year 5, the shell rate is adjusted to include a return on capital improvements completed during the intervening period (see section 6.1.6 for more detail). All provisions described in Chapter 5, Tenant Agency Rights and Options (e.g., cancelable and non-cancelable assignments) still apply.

### A. OA Iterations - New Construction and Substantial Rehabilitation

PBS must provide revised OAs to the tenant agencies throughout the project so that the Rent impact is fully disclosed during all the phases of the project. OA submissions, along with signature and workbook review requirements for new construction and substantial rehabilitation projects, are outlined in the following table. OAs signed by the proposed tenant agencies committing to pay ROI rates are required because the Office of Management and Budget (OMB) has advised PBS it will not advance projects without signed OAs.

**Table 6-2. ROI Workbook and OA Signature Requirements - Federally Owned**

New Construction/ Substantial Rehabilitation Phase	ROI Workbook Review by PT	OA Created/Revised Workbook Created/Updated	OA Signature Required	Comments
Response to CILP design call	Required	Required	Required	Workbook must be reviewed and approved by PT before OA is sent to tenant agency

New Construction/ Substantial Rehabilitation Phase	ROI Workbook Review by PT	OA Created/Revised Workbook Created/Updated	OA Signature Required	Comments
Design funding and authorization	Optional	As needed; see comments	As needed; see comments	If there are cost changes during design, workbook must be updated and a revised OA must be signed
Response to CILP/construction funding and authorization	Required if there are changes	As needed; see comments	As needed; see comments	Last review of ROI method by OMB with CILP submission. If there are cost changes from earlier versions, workbook must be revised and approved by PT before OA is sent to tenant agency for required signature
Rent Estimate (18 months prior to fiscal year when occupancy occurs)	Optional	As needed; see comments	As needed; see comments	Include pending space assignment and Rent in Inventory Changes Worksheet in Rent Estimate, update workbook and OA if needed
6 months before construction completion	Optional	Review and update as needed; see comments	As needed; see comments	If there are cost changes as the project continues, workbook must be updated and a revised OA must be signed
Construction completion/occupancy	Required	Required	Required	Note in OA that project reconciliation is not complete and some changes may be forthcoming
Construction cost reconciliation	Required if there is a financial increase	Required	Required if there is a financial increase	OA signature not required unless there is a financial increase from previous version

## **B. OA Iterations - Conversion from FAR-Based to ROI Pricing**

When considering conversion of underperforming assets from FAR-based to ROI pricing, all workbooks and supporting documentation must be submitted for review and approval by the PBS Office of Real Property Asset Management before an OA is developed and transmitted to the tenant agency for its required signature. Tenant agencies must be given the opportunity to budget for any increases in Rent.

## **C. OA Iterations - Continuing Occupancies**

Two years before the expiration of each OA term for ROI-priced buildings, the PBS region must perform a hurdle rate test using the current appraised FMV to determine if ROI is still the appropriate pricing method. The OA optional clause will clearly state when retesting will occur. The outcome of the retest will determine whether the building will continue to be priced using ROI rates or will revert to FAR pricing.

If the building passes the hurdle rate test, the region must prepare new OAs for the tenant agencies using the most recent FAR appraisal. If the building fails the hurdle rate test, the region must prepare new OAs for the tenant agencies using the ROI methodology. The OA term for continuing occupancies is 10 years. All tenant agencies in the building are to receive rates based on the new workbook calculations when their initial OA terms expire, unless there are exceptions in accordance with section 6.2.5.

When planning for the continuation of ROI pricing in a building, all workbooks and supporting documentation must be submitted to the PBS Office of Real Property Asset Management for review and approval in accordance with the Rent Estimate cycle. Approval must be obtained before an OA is developed and transmitted to the tenant agency for signature.

### **6.1.3. Calculating the ROI Shell Rate**

Once PBS determines that a building is eligible for ROI pricing, the following steps must be taken to establish the ROI shell rate.

The most recent OMB discount rate is to be used in early calculations of the ROI shell rate and corresponding iterations of the OA. However, the OMB discount rate used to establish the initial 5-year shell rate in the tenant agency's Rent bill must be set

in an OA in sufficient time to allow the tenant agency to budget for its Rent through the Rent Estimate process, typically 18 to 24 months.

### A. New Construction

The ROI shell rate for new construction is comprised of a return on the building's shell investment base and the value of the land. The value of the land, as determined by all components of its acquisition cost (if available), must be used as part of the shell investment base. If PBS acquired the land through donation or exchange and there is no acquisition cost, or if the acquisition cost of the land is not otherwise available, then an FMV appraisal is required to establish the land value entered into the ROI workbook.

The following information is required to complete the ROI workbook at certain stages of a project and prepare the OA for tenant agency signature:

- **CILP design call** – for projects in the planning stage that do not have a specific market location, but are included in the CILP submission for design funding, the projected FAR rate used to perform the hurdle rate test may be based on the most recent FAR appraisal or on a market survey of recent comparable lease transactions in that market. The appraisal or market survey must be approved by the regional appraiser.
- **Design funding and authorization** – for projects that have been approved for design funding with an identified design package and location, a current FAR appraisal effective as of the completion of construction of the building must be used to determine the income for the hurdle rate test. The appraisal must be approved by the regional appraiser.
- **Construction funding and authorization** – for new construction, the ROI workbook must be updated to reflect any construction cost changes.



### Workbook Calculations for New Construction Projects

The ROI workbook performs the following ROI shell rate calculations:

1. Multiplies the shell investment base (capital shell investment plus land FMV or acquisition cost, whichever is applicable) by the 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate), using a 95 percent occupancy factor to provide an indication of total potential return. The shell investment base includes the hard and soft construction costs as defined in Section 6.1.1. The shell investment base does not include BSAC security and the amortized TI expenses, which are calculated and billed separately.
2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.1.4.E.
3. Divides the result of step #2 by the fully utilized occupancy rate assumed by the Federal Real Property Council, currently 95 percent.
4. Divides the result of step #3 by the building's total RSF, resulting in the shell rent rate per square foot.

### B. Substantial Rehabilitation

The ROI shell rate for substantial rehabilitation is comprised of a return on the building's preproject value, determined by an FMV appraisal, and the additional capital investment cost identified for the project. A current preproject FMV is required and must be included in the shell investment base that is used as part of the ROI shell rate calculation. The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Market Value Appraisal Report issued nationally as part of the CILP. The appraisal must be reviewed and approved by the regional appraiser and the PBS Office of Real Property Asset Management before using it as part of the ROI hurdle rate test or as the basis for ROI calculations.

The FAR appraisal used in the hurdle rate test must reflect the postproject Rent.



### **Workbook Calculations for Substantial Rehabilitation Projects**

The ROI workbook performs the following ROI shell rate calculations:

1. Adds the capital investment cost to the preproject value of the property and multiplies the results by the 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) to provide an indication of total potential return. The shell investment base does not include BSAC security and the amortized TI expenses, which are calculated and billed separately.
2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.1.4.E.
3. Divides the result of step #2 by the fully utilized occupancy rate assumed by the Federal Real Property Council, currently 95 percent.
4. Divides the result of step #3 by the building's total RSF, resulting in the shell rent rate per square foot.

## **C. Conversions from FAR-Based to ROI Pricing**

The ROI shell rate for ROI conversions is based on a return on the building's value, determined by a current FMV appraisal of the property (building and land). The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Market Value Appraisal Report issued nationally as part of the CILP. The appraisal must be reviewed and approved by the regional appraiser and the PBS Office of Real Property Asset Management before using it as part of the ROI hurdle rate test or as the basis for ROI calculations.



### **Workbook Calculations for Conversions from FAR-Based to ROI Pricing**

The ROI workbook performs the following ROI shell rate calculations:

1. Multiplies the value of the property plus any capitalized shell improvements (capitalized vs. expensed items that are identified by Inventory Reporting Information

System (IRIS) work category) with funds obligated or currently under construction that are not reflected in the FMV, by the 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) using a 95 percent occupancy factor to provide an indication of total potential return.

2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.1.4.E.
  3. Divides the result of step #2 by the fully utilized occupancy rate assumed by the Federal Real Property Council, currently 95 percent.
  4. Divides the result of step #3 by the building's total RSF, resulting in the shell rent rate per square foot.
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#### D. Continuing Occupancies

The ROI shell rate for continuing occupancies is based on a return on the building's value, determined by a current FMV appraisal, considering all improvements to be installed in the building by the proposed date of occupancy. The FMV appraisal must be prepared using the current scope of work for the GSA Narrative Market Value Appraisal Report issued nationally as part of the CILP. The appraisal must be reviewed and approved by the regional appraiser and the PBS Office of Real Property Asset Management before using it as part of the ROI hurdle rate test or as the basis for ROI calculations. The effective date of the FMV appraisal must match the effective date of the FAR appraisal.

TIs for continuing occupancies are amortized over the OA term. The operating rate for continuing occupancies is calculated using the ROI workbook. Refer to section 6.1.4.A for additional information on TIs and section 6.1.4.B for additional information on operating rates.



#### Workbook Calculations for Continuing Occupancies

The ROI workbook performs the following ROI shell rate calculations:

1. Multiplies the value of the property by the 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) to provide an indication of total potential

return. The FMV appraisal must reflect all capital improvements completed up to the date of the new OA for the continuing occupancy.

2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.1.4.E.
  3. Divides the result of step #2 by the fully utilized occupancy rate assumed by the Federal Real Property Council, currently 95 percent.
  4. Divides the result of step #3 by the building's total RSF, resulting in the shell rent rate per square foot.
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## 6.1.4. Calculating Other ROI Rates

### A. Tenant Improvement Allowance Amortization Rate

TIs up to the allowance limits (whether set using the general and customization tier allowances, an estimate of functional space, or benchmarks) for new construction or substantial rehabilitation projects must be amortized based on the actual cost. The amortization period matches the 10-year OA term.

Existing TIs in properties converted from FAR-based pricing to ROI pricing are to maintain the existing amortization schedule. TIs in continuing occupancies are to be amortized over the OA term. However, in no case may the amortization term extend beyond the useful life of the TIs as determined by PBS. The rates are calculated using the 10-year Treasury bond rate plus 12.5 basis points, as established by PBS.

### B. Operating Rate

The operating rate is calculated in the ROI workbook. It is the sum of the building's estimated:

- annual operating expenses,
- field office general and administrative (G&A) expenses, and
- national and regional G&A expenses.

As with other federal buildings, standard utilities are based on a one-shift office operation, Monday through Friday, excluding federal holidays. PBS provides a consistent heating or cooling

temperature for 10 operating hours. For buildings with 24 hours per day operation, PBS provides one 10-hour shift, Monday through Friday, excluding federal holidays. Service beyond the 10 hours is reimbursable. See sections 3.7.1 and 3.7.4 for more details.

The national and regional G&A component of the operating rate may not exceed 10 percent of the sum of the ROI shell rate and the estimated annual operating expense per RSF.

The base year projected operating rate is determined by adding the estimated applicable G&A expenses to:

- the cost of similar type services for existing operating expenses, service contracts, or appraised operating rates at comparable locations for a full fiscal year (see example below) for new locations,

OR

- the most recent full fiscal year of operating expenses for that property, for existing locations.

If, at the time the operating rate is calculated a full fiscal year of operating expense history is not available, then a recent 12-month period (e.g., September of the previous year through August of the current year) may be used to make the calculations. This amount is escalated annually by the published OMB inflation rate to set each future fiscal year's operating rate.

#### Example 1. Developing ROI Operating Rate Using Expense History

	<u>Actual</u> 9/30/2008	<u>Projected</u> FY09	<u>Projected</u> FY10	<u>Rent Est</u> FY11
<b>Operating Rate/RSF:</b> <i>(the sum of operating expense and G&amp;A)</i>	\$ 5.75	\$ 5.87	\$ 5.98	\$ 6.10
<b>OMB Inflation Rate (3-year):</b>		2.00%	2.00%	2.00%
<b>Actual Operating Rate/RSF:</b>				<u>\$ 6.00</u>
<b>Overage/(Underage) Billing/RSF</b>				\$ 0.10

The methodology for annually reconciling operating rent will be established by the PBS Office of Real Property Asset Management in consultation with the PBS Office of Budget and Financial Management.

### C. Building-Specific Amortized Capital Rate

BSAC security costs are excluded from the shell rate calculation; the BSAC is calculated and billed in accordance with section 3.10.2.B.

### D. Joint Use Rate

Joint use rent is apportioned among tenant agencies based on space assigned, as outlined in section 3.17. The formula to calculate the joint use rate is the combined ROI shell and operating rates, plus either the actual cost of the joint use TIs or the general allowance plus a customization Tier 3 allowance, if actual cost information is not available.

If the actual cost of joint use TI is used, the spreadsheet amortization schedule must be retained by the region. Joint use TIs are amortized over 10 years. In no case may the amortization term extend beyond the useful life of the TIs. The TI amortization rate is the 10-year Treasury bond rate plus 12.5 basis points; see section 3.6.9 for more information on how PBS determines the amortization rate.

### E. Parking Rate

The surface and structured parking spaces assigned to each tenant agency are charged separately and appear as separate line items on the tenant agency's Rent bill. The additional costs to make a parking area secure are considered BSAC charges and are amortized into the tenant agency's Rent bill, as outlined in section 3.10.2.B.



#### ROI Workbook Calculations for Parking

The ROI workbook adjusts the ROI shell rate downward to account for the annual parking revenue, so that the total return for the property does not exceed the 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate).

The number of parking spaces may change during the occupancy term. The parking rates for both surface and structured parking are set using a FAR appraisal and are reset along with the shell rate every 5 years. The regional appraiser may use the Marshall Valuation Service cost guide to develop an ROI parking rate if there are no market comparables upon

which to base an appraisal. Changes in parking require a revised OA.

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## **F. Antenna and Other Rates**

Tenant agencies that occupy space in ROI properties are not charged for antenna sites or other ancillary spaces (e.g., ware yards, boat docks). However, tenant agencies that do not occupy space in the building are charged prevailing antenna charges or charges for usage of other ancillary spaces in accordance with sections 3.12 and 3.15.

There is no Rent charge for additional antennas added by building tenant agencies during occupancy if the tenant agency's Rent is set based on ROI pricing. Tenant agencies are responsible for all costs associated with the installation, maintenance, and removal of each antenna and restoration of the building to preinstallation condition.

### **6.1.5. ROI Rent Alternative for Tenant Agencies**

ROI pricing applies to all tenant agencies in a federally owned ROI building. However, PBS may allow an appraisal-based Rent in an ROI-priced building if the total Rent (including TI) for the tenant agency using ROI pricing is 20 percent or greater than the total Rent the tenant agency would pay in a lease for space of comparable quality.

Rent for those tenant agencies may be set by FAR appraisal or negotiated with the tenant agency and approved by the regional portfolio director using the backfill procedures outlined in section 6.1.7.C.

Any other deviations from the ROI pricing require an approval from the PBS Office of Real Property Asset Management and must be documented by the regional appraiser in the building appraisal file.

### **6.1.6. Adjusting Shell Rent for Additional Capital Improvements**

Postoccupancy capital shell investments (over \$50,000) and contract claim awards must be included in the ROI calculations. The additional charges for these items may begin after the tenant agency has been given adequate time to budget for the increased Rent. The regions must track all capitalized shell improvements over \$50,000. In addition, PBS must send the tenant agency an

OA describing the charges; the OA does not have to be signed by the tenant agency.

The Rent is adjusted over the term of the OA to reflect these costs using the ROI workbook as follows:

- **Initial adjustment** – for Rent Estimate purposes, it is necessary to calculate the adjustment after the initial 3 years to allow time for budgeting for a shell rent adjustment in the 6<sup>th</sup> year of the OA term.
- **Successive 5-year intervals** – capital improvements made during the final years (years 4 through 10) of the OA term are not added to the new 10-year FMV appraisal to derive the ROI rental rate. This is because the FMV appraisal for the continuing occupancy OA must consider all capital improvements made in years 4 through 10 of the initial OA term, especially when the work improves the effective age of the property and extends its useful life.

The following table outlines how the shell rent is adjusted to include capital improvements during the ROI term.

**Table 6-3. Capital Improvements During ROI Term**

Capital Improvement Calculation Period	Rent Adjustment Starts
Years 1-3	Year 6
Years 4-10	Year 1 of the continuing occupancy OA term (Capital improvements made during the last 6 years of the OA term must be considered in the 10-year FMV appraisal that sets the new rate.)



#### **Additional Capital Improvement Workbook Calculations:**

The ROI workbook uses the following formula to compute the adjusted ROI shell rate:

1. Multiplies the current 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) by:
  - the initial hard and soft costs of construction (minus BSAC and TIs) for newly constructed properties, or

- the preproject value of the property plus the initial hard and soft costs of construction for substantial rehabilitation projects, or
  - the initial value of the property that was used in the conversion.
2. Multiplies capitalized shell improvements (capitalized vs. expensed items are identified by IRIS work category) that were made to the property for the first 3 years of the OA term by the 10-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate).
  3. Adds the results of steps #1 and #2 and divides the result by the fully utilized occupancy rate assumed by the Federal Real Property Council, currently 95 percent.
  4. Deducts the annual parking revenue from the result of step #3. Parking revenue is calculated in accordance with section 6.1.4.E.
  5. Divides the result of step #4 by the building's total RSF, resulting in the shell rent rate per square foot.
- 

### 6.1.7. **Vacancy, Outlease, and Backfill Occupancy**

#### **A. Vacancy**

Tenant agencies are not billed for actual vacancy in ROI-priced federal buildings. The ROI workbook for noncourt federal buildings calculates the ROI shell rate based on the fully utilized occupancy rate assumed by the Federal Real Property Council, currently 95 percent.

#### **B. Outleasing to Nonfederal Tenants**

If the ROI rate is not greater than 20 percent above market, then the ROI rate may be charged to nonfederal tenants. Otherwise, the rental rate must be based on a FAR appraisal and not on the ROI shell rate.

#### **C. Backfill**

Backfill occupancies by federal tenants with a maximum term of 5 years may be charged a reduced rental rate in accordance with section 3.2.3. The termination date for the backfill tenant agency's OA must not extend beyond the OA termination date for all of the other tenant agencies in the building, so that all of

the building Rents adjust uniformly. There may be exceptions to this requirement, however, due to tenant agency program needs. The Rent for the other tenant agencies will not be adjusted for the difference.

## 6.2. Courthouse Return on Investment Pricing

This section addresses ROI pricing for federally owned buildings under the jurisdiction, custody, or control of GSA that are occupied entirely or predominantly by the U.S. Courts, referred to as “courthouses.” ROI pricing for buildings that are occupied predominantly by other federal tenants, or land ports of entry, are not covered by this chapter.

PBS and AOUSC executed a 10-year Memorandum of Agreement (MOA) on February 11, 2008, outlining the provisions for calculating and applying ROI Rent for courthouses in PBS’ federally owned inventory. The provisions of the MOA are incorporated in this policy.

Per the MOA, application of ROI pricing is required for new construction projects and also will be applied to existing ROI-priced courthouses.

- **New construction** – per the MOA, ROI pricing applies to all newly constructed courthouses added to the PBS inventory on or after February 18, 2008, regardless of the hurdle rate test results.
- **Conversion of existing ROI-priced buildings to the new ROI pricing methodology** – AOUSC and PBS agreed to convert 20 buildings where the original ROI pricing was applied after FY 2000 to the new ROI methodology. The conversion was effective no later than October 1, 2009.



**Note:** The MOA identifies nine buildings where the original ROI pricing was applied prior to FY 2000. These will convert to the new ROI pricing as continuing occupancies when the original OA terms expire.

- **Continuing occupancies** – ROI pricing for continuing occupancies in courthouses is applied when the initial OAs expire. ROI pricing for continuing occupancies applies to follow-on OA terms for new construction and other existing ROI-priced buildings.

The MOA identifies the use of FAR-based pricing for AOUSC occupancies in all other federally owned courthouses. There may be situations where a FAR-based courthouse does not or will not meet PBS’ return objective, such as substantial rehabilitation projects and underperforming courthouses. On a case-by-case basis, PBS Office of Real Property Asset Management will coordinate with AOUSC to obtain its agreement with the application of ROI pricing to these types of situations before OAs with ROI rates are transmitted to AOUSC and other noncourt tenant agencies for signature.

- **Substantial rehabilitation** – ROI pricing may be applied when PBS is expending capital to modernize or substantially rehabilitate FAR-based courthouses and the projected appraisal-based FAR rate does not meet PBS’ return objective. The decision on whether ROI pricing is appropriate for a substantial rehabilitation project must be made before submission of the construction prospectus.
- **Converting FAR-priced buildings** – in addition to failing the hurdle rate test, the following criteria must be met to convert a building from FAR-based pricing to ROI pricing:
  - PBS determines that it is in the government’s best interest to retain the building due to extensive buildout or specialized construction that would be too expensive to replicate in leased space.
  - The total Rent for any tenant agency using ROI pricing cannot be appreciably more than the total Rent that tenant agency would pay were PBS to enter into a lease for similar space. The lowest acceptable lease alternative is quality leased space that meets the tenant agency’s needs, generally existing vacant space in the market or in some cases, lease construction.
  - PBS will retain the asset and make capital investments as needed to satisfy the tenant agency’s space requirement.
  - PBS develops a business case and obtains agreement from AOUSC to apply PBS’ ROI pricing methodology.
  - The tenant agency’s agreement to pay ROI Rent is documented by a signed OA.

Once an asset is ROI-priced, PBS may not change back to FAR-based pricing during the OA term. ROI pricing provides the tenant agency and PBS with a predictable rental rate over the occupancy term. ROI pricing may not be applied to space leased by PBS to house AOUSC assignments.

### 6.2.1. Hurdle Rate Test

The hurdle rate test compares the potential net income of a property to PBS’ investment in the shell of the building. The hurdle rate test is contained in the ROI workbook, available on the PBS Office of Real Property Asset Management website.

If a building “fails” the hurdle rate test, i.e., if the return is below PBS’ return objective (currently 6 percent), then it is eligible for ROI pricing. The ROI workbook contains another tool, the ROI calculation, which must be used to determine the ROI shell rate.

The ROI calculation is designed to provide a shell rate that meets PBS' current hurdle rate.

The hurdle rate test is required in all cases, even for buildings that are automatically ROI priced per the MOA (new construction and continuing occupancy). PBS will study the results of the hurdle rate analyses to evaluate the use of the ROI pricing methodology as developed for AOUSC occupancies.

- **New construction** – conduct and document hurdle rate test at the following times:
  - Response to CILP Design Call
  - Construction completion/occupancy
- **Continuing occupancy** – conduct and document the hurdle rate test when developing the new ROI rate for the follow-on term.

All ROI workbooks for CILP ROI pricing candidates, for conversions of FAR-based pricing to ROI pricing, and for establishing billing of ROI-priced assignments must be completed and transmitted to PBS Office of Real Property Asset Management, along with source documentation for review and concurrence. See Table 6-4. ROI Workbook and OA Signature Requirements – Courthouses for additional detail.

The following hurdle rate test must be used to document new and continuing ROI-priced AOUSC occupancies, and to build a business case for substantial rehabilitation and conversion of underperforming assets:

#### **Hurdle Rate Test**

- Multiply the first year's FAR shell rate (if it is a conversion, use the as-is rate), net of appraised operating expenses, by the building's total RSF. Add the potential FAR parking revenue.
- Divide the result by one of the following appropriate values:
  - **For new construction** – the hard and soft costs of construction.

#### **Hard costs include:**

- bricks and mortar expense (labor, materials, and equipment)
- contractor overhead and profit
- acquisition cost/FMV of the land
- escalations and other contingencies (e.g., design and construction contingencies applied in calculating the ECC)

**Soft costs include:**

- architectural, engineering, and CM services
  - legal services and public hearings
  - feasibility, market, and environmental studies
  - financing, relocation, and site remediation
- **For substantial rehabilitation** – the FMV of the property (i.e., land and building) plus the rehabilitation expense (see hard and soft cost definitions outlined above).
  - **For buildings converted to ROI and continuing occupancies** – the FMV of the property.

**Note:** Exclude the BSAC charges (e.g. progressive collapse, blast mitigation, and window glazing) and TIs from this calculation, as they are charged separately.

- If the quotient is less than PBS' hurdle rate (currently 6 percent), the FAR rate does not constitute an adequate ROI for the property and the property qualifies for ROI pricing. PBS may adjust the hurdle rate as necessary.

### 6.2.2. OA Terms and Signature Requirements

The OA term for all ROI-priced courthouses is 20 years and all are non-cancelable. The ROI shell rate is fixed for 5 years and reset at 5-year intervals. At each 5-year interval, the shell rate is adjusted to include a return on capital improvements completed during the intervening periods. This process is outlined in section 6.2.6.

#### A. OA Iterations - New Construction and Substantial Rehabilitation

PBS must provide revised OAs to the tenant agencies throughout the project so that the Rent impact is fully disclosed during all the phases of the project. OA submissions, along with signature and workbook review requirements for new construction and substantial rehabilitation projects, are outlined in the following table. OAs signed by the proposed tenant agencies committing to pay ROI rates are required because OMB has advised PBS it will not advance projects without signed OAs.

Table 6-4. ROI Workbook and OA Signature Requirements – Courthouses

New Construction/ Substantial Rehabilitation Phase	ROI Workbook Review by PT	OA Created/Revised Workbook Created/Updated	OA Signature Required	Comments
Response to CILP design call	Required	Required	Required	Workbook must be reviewed and approved by PT before OA is sent to tenant agency. AOUSC also reviews workbooks and approves use of ROI pricing for substantial rehabilitation projects in buildings priced using FAR appraisals.
Design funding and authorization	Optional	As needed; see comments	As needed; see comments	If there are cost changes during design, workbook must be updated and a revised OA must be signed
Response to CILP/ construction funding and authorization	Required if there are changes	As needed; see comments	As needed; see comments	Last review of ROI method by OMB with CILP submission. If there are cost changes from earlier versions, workbook must be revised and approved by PT before OA is sent to tenant agency for required signature
Rent Estimate (18 months prior to fiscal year when occupancy occurs)	Optional	As needed; see comments	As needed; see comments	Include pending space assignment and Rent in Inventory Changes Worksheet in Rent Estimate, update workbook and OA if needed
6 months before construction completion	Optional	Review and update as needed; see comments	As needed; see comments	If there are cost changes as the project continues, workbook must be updated and a revised OA must be signed

New Construction/ Substantial Rehabilitation Phase	ROI Workbook Review by PT	OA Created/Revised Workbook Created/Updated	OA Signature Required	Comments
Construction completion/ occupancy	Required	Required	Required	Note in OA that project reconciliation is not complete and some changes may be forthcoming.
Construction cost reconciliation	Required if there is a financial increase	Required	Required if there is a financial increase	OA signature is not required unless there is a financial increase from previous version

### B. OA Iterations - Conversion from FAR-Based to ROI Pricing

When considering conversion of underperforming assets from FAR-based to ROI pricing, all workbooks and supporting documentation must be submitted for review and approval by the PBS Office of Real Property Asset Management before an OA is developed and transmitted to AOUSC for its required signature to demonstrate its agreement with the conversion. Noncourt tenant agencies must also be given the opportunity to budget for any increases in Rent.

### C. OA Iterations - Continuing Occupancies

To continue ROI pricing in a building, all workbooks and supporting documentation must be submitted to the PBS Office of Real Property Asset Management for review and approval in concurrence with the Rent Estimate cycle. Approval must be obtained before an OA is developed and transmitted to the tenant agency for signature. After regional and national review, a copy of the workbook and appraisal must be provided to AOUSC.

## 6.2.3. Calculating the ROI Shell Rate

Once PBS determines that a building is eligible for ROI pricing, the following steps must be taken to establish the ROI shell rate.

The most recent OMB discount rate is to be used in early calculations of the ROI shell rate and corresponding iterations of

the OA. However, the OMB discount rate used to establish the initial 5-year shell rate in the tenant agency's Rent bill must be set in an OA in sufficient time to allow AOUSC to budget for its Rent through the Rent Estimate process, typically 18 to 24 months.

### A. New Construction

The ROI shell rate for new construction is comprised of a return on the building's shell investment base and the value of the land. The value of the land, as determined by all components of its acquisition cost (if available), must be used as part of the shell investment base. If PBS acquired the land through donation or exchange and there is no acquisition cost, or if the acquisition cost of the land is not otherwise available, then an FMV appraisal is required to establish the land value entered into the ROI workbook.

The following information is required to complete the ROI workbook at certain stages of a project and prepare the OA for tenant agency signature:

- **CILP design call** – for projects in the planning stage that do not have a specific market location, but are included in the CILP submission for design funding, the projected FAR rate used to perform the hurdle rate test may be based on the most recent FAR appraisal or on a market survey of recent comparable lease transactions in that market. The appraisal or market survey must be approved by the regional appraiser.
- **Design funding and authorization** – for projects that have been approved for design funding with an identified design package and location, a current FAR appraisal effective as of the completion of construction of the building must be used to determine the income for the hurdle rate test. The appraisal must be approved by the regional appraiser.
- **Construction funding and authorization** – for new construction, the ROI workbook must be updated to reflect any construction cost changes.



### Workbook Calculations for New Construction Projects

The ROI workbook performs the following ROI shell rate calculations:

1. Multiplies the shell investment base (capital shell investment plus land FMV or acquisition cost, whichever is applicable) by the 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate), using a 100 percent occupancy factor to provide an indication of total potential return. The shell investment base includes the hard and soft construction costs as defined in section 6.2.1. The shell investment base does not include BSAC security and the amortized TI expenses, which are calculated and billed separately.
2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.2.4.E.
3. Divides the result of step #2 by the building's total RSF, resulting in the shell rent rate per square foot.

### B. Substantial Rehabilitation

The ROI shell rate for substantial rehabilitation is comprised of a return on the building's preproject value, determined by an FMV appraisal, and the additional capital investment cost identified for the project. A current preproject FMV is required and must be included in the shell investment base that is used as part of the ROI shell rate calculation. The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Market Value Appraisal Report issued nationally as part of the CILP. The appraisal must be reviewed and approved by the regional appraiser and the PBS Office of Real Property Asset Management before using it as part of the ROI hurdle rate test or as the basis for ROI calculations.

The FAR appraisal used in the hurdle rate test must reflect the postproject Rent.



### **Workbook Calculations for Substantial Rehabilitation Projects**

The ROI workbook performs the following ROI shell rate calculations:

1. Adds the capital investment cost to the preproject value of the property and multiplies the results by the 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate), using a 100 percent occupancy factor to provide an indication of total potential return. The shell investment base does not include BSAC security and the amortized TI expenses, which are calculated and billed separately.
2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.2.4.E.
3. Divides the result of step #2 by the building's total RSF, resulting in the shell rent rate per square foot.

## **C. Conversions from FAR-Based to ROI Pricing**

The ROI shell rate for ROI conversions is based on a return on the building's value, determined by a current FMV appraisal of the property (building and land). The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Market Value Appraisal Report issued nationally as part of the CILP. The appraisal must be reviewed and approved by the regional appraiser and the PBS Office of Real Property Asset Management before using it as part of the ROI hurdle rate test or as the basis for ROI calculations.



### **Workbook Calculations for Conversions from FAR-Based to ROI Pricing**

The ROI workbook performs the following ROI shell rate calculations:

1. Multiplies the value of the property plus any capitalized shell improvements (capitalized vs. expensed items that are identified by IRIS work category) with funds obligated or currently under construction that are not reflected in the FMV, by the 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) using

- a 100 percent occupancy factor to provide an indication of total potential return.
2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.2.4.E.
  3. Divides the result of step #2 by the building's total RSF, resulting in the shell rent rate per square foot.
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#### D. Continuing Occupancies

The ROI shell rate for continuing occupancies is based on a return on the building's current value, determined by a current FMV appraisal, considering the building in its fee simple, as-is condition as of the proposed date of occupancy, and assuming continuing federal occupancy for a 20-year term. The FMV appraisal must be prepared using the current scope of work for the GSA Narrative Market Value Appraisal Report issued nationally as part of the CILP. The appraisal must be reviewed and approved by the regional appraiser and the PBS Office of Real Property Asset Management before using it as part of the ROI hurdle rate test or as the basis for ROI calculations. The effective date of the FMV appraisal must match the effective date of the FAR appraisal.

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#### Workbook Calculations for Continuing Occupancies

The ROI workbook performs the following ROI shell rate calculations:

1. Multiplies the value of the property by the 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) using a 100 percent occupancy factor to provide an indication of total potential return. The FMV appraisal must reflect all capital improvements completed up to the date of the new OA for the continuing occupancy.
  2. Deducts the annual parking revenue from the result of step #1. Parking revenue is calculated in accordance with section 6.2.4.E.
  3. Divides the result of step #2 by the building's total RSF, resulting in the shell rent rate per square foot.
-

## 6.2.4. Calculating Other ROI Rates

### A. Tenant Improvement Allowance Amortization Rate

TIs up to the allowance limits (whether set using the general and customization tier allowances, an estimate of functional space, or benchmarks) for new construction, substantial rehabilitation projects, and continuing occupancies must be amortized based on the actual cost. The amortization period for most assignments is 10 years; however, the period may be increased to 20 years with the approval of the PBS Office of Real Property Asset Management and AOUSC.

Existing TIs in properties converted from FAR-based pricing to ROI pricing are to maintain the existing amortization schedule. TIs in continuing occupancies are to be amortized over the OA term. The TI amortization rate is the 10-year Treasury bond rate plus 12.5 basis points; see section 3.6.9 for more information on how PBS determines the amortization rate.

### B. Operating Rate

The operating rate is calculated in the ROI workbook. It is the sum of the building's estimated:

- annual operating expenses,
- field office G&A expenses, and
- national and regional G&A expenses.

As with other federal buildings, standard utilities are based on a one-shift office operation, Monday through Friday, excluding federal holidays. PBS provides a consistent heating or cooling temperature for 10 operating hours. For buildings with 24 hours per day operation, PBS provides one 10-hour shift, Monday through Friday, excluding federal holidays. Service beyond the 10 hours is reimbursable. See sections 3.7.1 and 3.7.4 for more details.

The national and regional G&A component of the operating rate may not exceed 10 percent of the sum of the ROI shell rate and the estimated annual operating expense per RSF.

The base year projected operating rate is determined by adding the estimated applicable G&A expenses to:

- the cost of similar type services for existing operating expenses, service contracts, or appraised operating rates

at comparable locations for a full fiscal year (see example below) for new locations,

OR

- the most recent full fiscal year of operating expenses for that property, for existing locations.

If, at the time the operating rate is calculated a full fiscal year of operating expense history is not available, then a recent 12-month period (e.g., September of the previous year through August of the current year) may be used to make the calculations. This amount is escalated annually by the published OMB inflation rate to set each future fiscal year's operating rate.

#### Example 2. Developing ROI Operating Rate Using Expense History

	<u>Actual</u> 9/30/2008	<u>Projected</u> FY09	<u>Projected</u> FY10	<u>Rent Est</u> FY11
Operating Rate/RSF: (the sum of operating expense and G&A)	\$ 5.75	\$ 5.87	\$ 5.98	\$ 6.10
OMB Inflation Rate (3-year):		2.00%	2.00%	2.00%
Actual Operating Rate/RSF:				<u>\$ 6.00</u>
Overage/(Underage) Billing/RSF				\$ 0.10

The methodology for annually reconciling operating rent will be established by the PBS Office of Real Property Asset Management in consultation with the PBS Office of Budget and Financial Management.

### C. Building-Specific Amortized Capital Rate

BSAC security costs are excluded from the shell rate calculation; the BSAC is calculated and billed in accordance with section 3.10.2.B.

### D. Joint Use Rate

Joint use rent is apportioned among tenant agencies based on space assigned, as outlined in section 3.17. The formula to calculate the joint use rate is the combined ROI shell and operating rates, plus either the actual cost of the joint use TIs

or the general allowance plus a customization tier 3 allowance, if actual cost information is not available.

If the actual cost of joint use TI is used, the spreadsheet amortization schedule must be retained by the region. Joint use TIs are amortized over 10 years. In no case may the amortization term extend beyond the useful life of the TIs. The TI amortization rate is the 10-year Treasury bond rate plus 12.5 basis points; see section 3.6.9 for more information on how PBS determines the amortization rate.

### E. Parking Rate

The surface and structured parking spaces assigned to each tenant agency are charged separately and appear as separate line items on the tenant agency's Rent bill. The additional costs to make a parking area secure are considered BSAC charges and are amortized into the tenant agency's Rent bill, as outlined in section 3.10.2.B.



#### ROI Workbook Calculations for Parking

The ROI workbook adjusts the ROI shell rate downward to account for the annual parking revenue, so that the total return for the property does not exceed the 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate).

The number of parking spaces may change during the occupancy term. The parking rates for both surface and structured parking are set using a FAR appraisal and are reset along with the shell rate every 5 years. The regional appraiser may use the Marshall Valuation Service cost guide to develop an ROI parking rate if there are no market comparables upon which to base an appraisal. Changes in parking require a revised OA.

### F. Antenna and Other Rates

Tenant agencies that occupy space in ROI properties are not charged for antenna sites or other ancillary spaces (e.g., ware yards, boat docks). However, tenant agencies that do not occupy space in the building are charged prevailing antenna charges or charges for usage of other ancillary spaces in accordance with sections 3.12 and 3.15.

There is no Rent charge for additional antennas added by building tenant agencies during occupancy if the tenant

agency's Rent is set based on ROI pricing. Tenant agencies are responsible for all costs associated with the installation, maintenance, and removal of each antenna and restoration of the building to preinstallation condition.

### 6.2.5. ROI Rent Alternative for Noncourt Tenant Agencies

Although AOUSC is the main tenant agency, all other tenant agencies within ROI-priced courthouses are subject to ROI pricing. However, PBS may allow appraisal-based Rent in an ROI-priced building if the total Rent (including TIs) for the tenant agency using ROI pricing is 20 percent or greater than the total Rent the tenant agency would pay in a lease for space of comparable quality.

Rent for those noncourt tenant agencies may be set by FAR appraisal or as negotiated with the tenant agency and approved by the regional portfolio director using the backfill procedures outlined in section 6.2.7.C.

Any other deviations from the ROI pricing require an approval from the PBS Office of Real Property Asset Management and must be documented by the regional appraiser in the building appraisal file.

### 6.2.6. Adjusting Shell Rent for Additional Capital Improvements

Postoccupancy capital shell investments (over \$50,000) and contract claim awards must be included in the ROI calculations. The additional charges for these items may begin after the tenant agency has been given adequate time to budget for the increased Rent. The regions must track all capitalized shell improvements over \$50,000. In addition, PBS must send the tenant agency an OA describing the charges; the OA does not have to be signed by the tenant agency.

The Rent is adjusted over the term of the OA to reflect these costs using the ROI workbook as follows:

- **Initial adjustment** – for Rent Estimate purposes, it is necessary to calculate the adjustment after the initial 3 years to allow time for budgeting for a shell rent adjustment in the 6<sup>th</sup> year of the OA term.
- **Successive 5-year intervals** – capital improvements made during successive 5-year periods (years 4 through 13) of the

OA term are not added to the new 20-year FMV appraisal to derive the ROI rental rate. This is because the FMV appraisal for the continuing occupancy OA must consider all capital improvements made in years 14 through 20 of the initial OA term, especially when the work improves the effective age of the property and extends its useful life.

The following table outlines how the shell rent is adjusted to include capital improvements during the ROI term.

**Table 6-5. Capital Improvements During Courthouse ROI Term**

Capital Improvement Calculation Period	Rent Adjustment Starts
Years 1-3	Year 6
Years 4-8	Year 11
Years 9-13	Year 16
Years 14 – 20	Year 1 of the continuing occupancy OA term  (Capital improvements made during the last 6 years of the OA term must be considered in the 20-year FMV appraisal that sets the new rate.)



### Additional Capital Improvement Workbook Calculations:

The ROI workbook uses the following formula to compute the adjusted ROI shell rate:

- Multiplies the current 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate) using a 100 percent occupancy factor by:
  - the initial hard and soft costs of construction (minus BSAC and TIs) for newly constructed properties, or
  - the preproject value of the property plus the initial hard and soft costs of construction for substantial rehabilitation projects, or

- the initial value of the property that was used to calculate the conversion.
2. Multiplies capitalized shell improvements (capitalized vs. expensed items are identified by IRIS work category) that were made to the property for the capital improvement calculation period (see Table 6-5. Capital Improvements During Courthouse ROI Term) by the 20-year OMB discount rate plus 1 percent (but not less than PBS' hurdle rate), using a 100 percent occupancy factor.
  3. Adds the results of steps #1 and #2 and deducts the annual parking revenue from the result. Parking revenue is calculated in accordance with section 6.2.4.E.
  4. Divides the result of step #3 by the building's total RSF, resulting in the shell rent rate per square foot.
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## 6.2.7. Vacancy, Outlease, and Backfill Occupancy

### A. Vacancy

In the February 11, 2008 MOA, AOUSC agreed to pay for all vacant space in ROI-priced courthouses, including TI rates and parking rates. PBS will minimize operating expenses in vacant areas as the specific situation warrants. The ROI Rent for the vacant space is to be calculated and billed using a separate OA. The vacant space is assigned to agency/bureau (A/B) code 1022. The vacancy will be recalibrated simultaneously with the resetting of the ROI shell rate to recover additional capital reinvestment, as outlined in section 6.2.6.

### B. Outleasing to Nonfederal Tenants

If the ROI rate is not greater than 20 percent above market, then the ROI rate may be charged to nonfederal tenants. Otherwise, the rental rate must be based on a FAR appraisal and not on the ROI shell rate.

### C. Backfill

Backfill occupancies by noncourt federal tenant agencies with a maximum term of 5 years may be charged a reduced rental rate in accordance with section 3.2.3. The termination date for the backfill tenant agency's OA must not extend beyond the OA termination date for the other tenant agencies in the building, so that all of the building Rents adjust uniformly. There may

be exceptions to this requirement, however, due to tenant agency program needs.

AOUSC pays for the net difference between the ROI shell rate and the reduced rate provided to the backfill tenants. A billing adjustment for the difference is to be included in the OA for vacant space assigned to AOUSC, or to a new OA if no vacancy exists. The backfill tenant agency pays the amortization for its TIs in accordance with section 6.2.4.A.

### **6.3. Land Ports of Entry**

Reserved



## Chapter 7. United States Postal Service Pricing

PBS and the United States Postal Service (USPS) can be either tenant or landlord to each other. A Letter of Understanding (LOU) signed in February 2005 governs this relationship. PBS pricing policy is to recognize the following:

- When USPS is a tenant in PBS-controlled space, all pricing policies apply.
- When USPS is the property owner:
  - PBS treats USPS space the same as leased space for pricing purposes and passes through rent charges to the tenant agency. A Tenancy Agreement (TA), created by USPS and signed by PBS, takes the place of a regular lease document. The TA has a 5-year fixed term. However, if the tenant improvements (TIs) are amortized for longer than 5 years, and if USPS is amenable, the TA can be extended to meet the amortization term.
  - USPS honors the TI allowance requirement of PBS tenant agencies, depending on the availability of USPS funds. The tenant agency has a 4-month cancellation right, with liability for only the unamortized balance of the TIs.
  - PBS provides OAs to the tenant agencies with the rates as outlined in the TA. The PBS fee is reduced to 4 percent for cancelable or non-cancelable assignments, since there is no contract risk—see section 2.15.2.B.
  - USPS is the service provider for security, so USPS security charges apply as part of the TA negotiations and are passed on to the tenant agency through the OA. If building security services are needed in addition to the security provided by USPS, the tenant agency negotiates separately with the Federal Protective Service to acquire the services.



## Chapter 8. Congressional District Offices

### 8.1. U.S. Senate Pricing

Presently a Memorandum of Agreement<sup>1</sup> dated October 1996 between PBS and the U.S. Senate governs the space assignment of U.S. Senate offices. Pricing for U.S. Senate offices differs from standard PBS pricing policy in the following ways:

- Although the Occupancy Agreement (OA) is used for documentation and billing purposes, signature is not required. The OA term is 6 years.
- U.S. Senators have the right to release space upon 30 days' notice.
- U.S. Senate assignments are not charged for tenant improvements (TIs).
- U.S. Senate assignments are not charged for antennas.
- The PBS fee is not applied to U.S. Senate offices in leased space.
- U.S. Senators are entitled to cyclic paint and carpeting without additional charge.

Further, by law, each Senator may not exceed a certain square footage, expressed in usable square feet (USF). Since PBS has adopted a modified version of the American National Standards Institute/Building Owners and Managers Association (ANSI/BOMA) method of measurement, which gives assignments in rentable and usable terms, each U.S. Senate OA must contain the following statement:

“For purposes of complying with Public Law 99-88, August 15, 1985, as amended, 2 U.S.C. 59, the space in this assignment is [insert USF] usable square feet.”

PBS must not alter the USF without prior approval of the Sergeant at Arms.

If there is U.S. Senate assignment in a building undergoing a remeasurement, the result of the remeasurement cannot increase the USF of the assignment. If there is an increase in the USF due to the remeasurement action, the additional square footage must be assigned to agency/bureau code 4714.

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<sup>1</sup> The Memorandum of Agreement's full title is “Providing and Outfitting State Offices for U.S. Senators.”

## 8.2. U.S. House of Representatives Pricing

All elements of PBS pricing policy apply to Members of the U.S. House of Representatives, with the following modifications:

- Although Members' terms are for 2 years, PBS enters into 6-year OAs with House Members. The 6-year OA provides parity with the U.S. Senate.
- TIs are amortized over the House Member's term, not to exceed 2 years.
- The Member of Congress signs the OA.
- The Member of Congress has the right to release space upon 30 days' notice.
- In the event of the death or resignation of the Member, the Clerk of the House may continue to occupy the office for up to 60 days following the election.

## Chapter 9. Emergencies

### 9.1. Natural Disasters

Supplemental guidance on the pricing, billing, and documentation of space actions associated with conditions created by natural disasters, such as hurricanes, tornadoes, and floods will be provided as needed.

### 9.2. Federal Emergency Management Agency Occupancy Agreements

When a Federal Emergency Management Agency (FEMA) emergency lease requirement is filled in existing vacant owned or leased space, an Occupancy Agreement (OA) is required, and standard pricing policies apply.<sup>1</sup> In such instances, the standard FEMA agency/bureau code must be used for inventory system project and OA billing purposes. The standard Federal Protective Service security fees also apply

OAs are not required for emergency leases that are directly billed to FEMA. Any services that PBS provides to FEMA in these cases are compensated on a reimbursable basis.

### 9.3. Emergency Relocations

As part of the PBS guarantee to provide space, PBS will find tenant agencies new space on an immediate interim basis if the tenant agency is forced to vacate its assigned space by natural or manmade disaster or emergency. PBS will acquire space as quickly as possible and work with the Federal Acquisition Service to acquire furniture, phones, and computers.

If the space is temporary, PBS seeks no change in Rent or any additional fee for its services. If the tenant agency will never return to its original space, PBS will seek new space for the tenant agency with a new OA tailored to the new assignment. In this situation, tenant agencies do not pay for any unamortized TI costs at the vacated location.

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<sup>1</sup> From the 8-23-2008 Realty Services Letter entitled, "Procedures for FEMA Emergency and Disaster Leases."



# Appendix A: Sample Format for Recurring Reimbursable Billing

[Tenant Agency]  
 [Tenant Agency Street Address]  
 [Tenant Agency City, State, Zip Code]

Dear Tenant Agency:

**(If OA is in place.)**

The purpose of this letter is to revise your current Occupancy Agreement (OA) to include recurring reimbursable charges on the PBS Rent Bill. The following information is provided for your approval and concurrence.

**(If no OA is in place.)**

The purpose of this letter is to obtain your approval to include recurring reimbursable charges on the PBS Rent Bill. The following information is provided for your review and concurrence.

*(Check appropriate line; a separate letter should be prepared for each service.)*

**1. Service to be billed:**

- Overtime Utilities
  - Gas
  - Electricity
  - Steam
  - Coal
  - Oil
  - Chilled Water
  - Water
  - Renewable Energy
- Enhanced Custodial Services
- Mechanical O&M HVAC
- Mechanical O&M Other (explain) \_\_\_\_\_

**2. OA Number:** *(If there is an OA in place, indicate the number. If no is OA in place, eliminate this item.)*

**3. OA Amendment Number:** *(If there is an OA in place, indicate amendment number. If no OA is in place, eliminate this item.)*

**4. CBR Number:** *(Indicate CBR number.)*

**5. Lease or Building Number:** *(Indicate lease or building number)*

**6. Start Date:** *(May start at any time during the FY, the norm is October of each year.)*

**7. Termination Date:** *(For federally owned, terminate at the CBR expiration date or the end of the FY, whichever occurs first. For leased, terminate at the lease termination date or the end of the FY, whichever occurs first.)*

**8. Annual Amount:** *(Indicate annual amount for the current FY.)*

**9. Monthly Amount:** *(Indicate the monthly payment.)*

An annual administrative fee, currently \$100 per service rendered, is charged to the user for this billing accommodation. The fee is reflected in the first month the charge is billed.

This agreement will terminate on: *(Indicate end of FY, the CBR expiration date for owned or lease expiration date, whichever occurs first.)* A new OA amendment *(if existing OA)* or a new agreement *(if no OA is in place)* will be required for the succeeding fiscal years.

Please indicate your concurrence and return to me via fax at ###.###-####. *(Fax or email to the tenant agency for concurrence and approval.)*

Sincerely

Signature Block

PBS

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TENANT AGENCY CONCURRENCE

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NAME/TITLE

---

DATE

*(The Office of Budget and Financial Management Revenue Director must verify that the tenant agency is a “participating” agency. If input is made into the PBS inventory system and the tenant agency is not a participating agency it CANNOT be deleted in the PBS inventory system. The existing chargeback procedures and rules will apply.)*

*(Upon receipt of concurrence, process billing through the OA Tool.)*

## Appendix B: Acronyms

Acronym	Term
A/B	Agency/bureau (code)
ABA	Architectural Barriers Act
ACO	Administrative contracting officer
ADS	Appraisal Data System
A/E	Architectural/engineering
ANSI	American National Standards Institute
AOUSC	Administrative Office of the U.S. Courts
BA	Budget activity
BOAC	Billing office accounting code
BOMA	Building Owners and Managers Association
BSAC	Building-specific amortized capital
CBR	Client Billing Record
CILP	Capital Investment and Leasing Program
CM	Construction management
COOP	Continuity of operations
COR	Contracting officer representative
CPI	Consumer price index
DHS	Department of Homeland Security
DID	Design intent drawing
EA	Environmental assessment
ECC	Estimated construction costs
EIS	Environmental impact study
ESA	Environmental site assessment

Acronym	Term
FAR	Fair annual rental
FBF	Federal Buildings Fund
FEMA	Federal Emergency Management Agency
FFB	Federal Financing Bank
FMR	Federal Management Regulation
FMV	Fair market value
FPR	Final proposal revisions
FPS	Federal Protective Service
FSC	Facility security committee
G&A	General and administrative
GNS	General storage (space classification)
GSA	General Services Administration
HEPA	High efficiency particulate air
HSPD-12	Homeland Security Presidential Directive 12
HVAC	Heating, ventilation, and air conditioning
IMV	Initial measurement and validation
IPAC	Intra-Governmental Payment and Collection System
IRIS	Inventory Reporting Information System
ISC	Interagency Security Committee
LOU	Letter of understanding
LPOE	Land Port of Entry
MOA	Memorandum of agreement
NBC	National Broker Contract
NBSAP	National Business Space Assignment Policy
O&M	Operations and maintenance
OA	Occupancy Agreement

Acronym	Term
OEP	Occupant emergency plans
OMB	Office of Management and Budget
OTFO	Other than full and open
PBS	Public Buildings Service
PDG	Pricing Desk Guide
POR	Program of requirements
R&A	Repair and alteration
R/U	Rentable square footage/usable square footage (ratio)
ROI	Return on investment
RSF	Rentable square footage
RWA	Reimbursable work authorization
SDM	Spatial Data Management
SFO	Solicitation for offers
SLA	Supplemental Lease Agreement
SWA	Security work authorization
TA	Tenancy Agreement
TI	Tenant improvements
TTO	Total office (space classification)
UPS	Uninterruptible power supply
USF	Usable square footage
USPS	United States Postal Service

## Appendix C: Glossary

Term	Definition
<b>Ad hoc clause</b>	Customized clause specific to an assignment and not included elsewhere in the Occupancy Agreement.
<b>Agency-specific clause</b>	Outlines terms and conditions that a particular tenant agency or bureau has agreed to use nationally in every Occupancy Agreement.
<b>Antenna</b>	Any device of a federal agency located on a leased or public building or on PBS-controlled land, which can be used to transmit and/or receive electromagnetic signals.
<b>Appraisal Data System (ADS)</b>	PBS' information technology system used to manage appraisal and rent data for federal properties.
<b>BA53</b>	Budget Activity for Rental of Space (53). Provides for the rental and related services furnished by lessors for government-leased facilities under lease agreements.
<b>Backfill</b>	Existing space that is already built out but vacant and available for a new tenant agency.
<b>Building-specific amortized capital (BSAC) security</b>	Security items that GSA funds lump sum and then amortizes the cost over the life of the improvement. BSAC items are a separate capital investment and are not included in the building shell or in tenant improvements. BSAC is the only security charge presently on the PBS Rent bill to tenant agencies.
<b>Building shell</b>	The complete enveloping structure, the base building systems, and the finished common areas (building common and floor common) of a building that adjoin the tenant areas.
<b>Common area factor</b>	A conversion factor determined by the building owner and applied to the usable square footage to determine the rentable square footage for the space.

Term	Definition
<b>Continuing occupancy</b>	In federally owned space, the tenant agency remains in the same space occupied during the prior Occupancy Agreement term. In leased space, continuing occupancy is characterized by the execution of a lease extension, succeeding lease, superseding lease, or the exercise of a renewal option.
<b>Customization component</b>	The customization component, part of the tenant improvement allowance, is a dollar amount per usable square foot tailored to individual tenant agencies. The customization component covers special items, preparations, or finishes that are not typical to all office space, but are necessary to customize the space for a particular tenant agency.
<b>Design intent drawings (DIDs)</b>	Layout line drawings showing partitions and doors; schematic demolition; voice, data, and electrical outlet locations; finishes; generic furniture layout and any additional details necessary to communicate the design intent to the lessor's architect for the purposes of preparing the construction documents.
<b>Forced move</b>	When one tenant agency is forcing another tenant agency to move from its space prior to expiration of its Occupancy Agreement term. PBS can be the forcing agency.
<b>Hurdle rate</b>	PBS' return objective. The hurdle rate is a measure set so that all PBS assets are recovering the minimum cost of ownership and reinvestment.
<b>Joint use space</b>	Space available for use by all tenant agencies in a building, lease, facility, or community. Joint use amenities are public good amenities to which the applicable federal community must contribute, whether or not they elect to use the amenities.
<b>Lump-sum payment</b>	A payment made for space-related services or tenant improvements not amortized in the Rent.

Term	Definition
<b>Non-cancelable space</b>	In non-cancelable space, if the tenant agency vacates the space prior to the expiration of the Occupancy Agreement, the tenant agency continues to pay Rent until a backfill tenant agency is found or the Occupancy Agreement expires.
<b>New occupancy</b>	Space that is new to the PBS inventory; space is considered new if its prior use was non-PBS, or if PBS' occupancy is discontinuous.
<b>OA Tool</b>	PBS' information technology system used to create and maintain all versions of Occupancy Agreements and to bill tenant agencies.
<b>Occupancy Agreement (OA)</b>	A complete, concise statement of the business terms governing the relationship between PBS and the tenant agency for a specific space assignment.
<b>OA Term</b>	The specific duration that the tenant agency has a right to occupy the space; tenant agencies do not have a perpetual right to occupy the space identified in the OA.
<b>Operating costs</b>	The recurring costs of operating a building, such as utilities and cleaning.
<b>PBS standard clause</b>	Explains the obligations of both PBS and the tenant agency during the acquisition of space as well as during occupancy; PBS standard clauses are mandatory for every OA and cannot be changed by the tenant agency.
<b>Reimbursable work authorization (RWA)</b>	Funding document used by tenant agencies to pay PBS for above-standard space-related services and above-allowance tenant improvements.
<b>Relet space</b>	Space that already has TIs installed for a prior tenant. This commonly occurs in backfill space when the space is already finished with complete TIs in place.
<b>Rentable square footage</b>	The area for which the tenant agency is charged Rent; may include a share of building support and common areas.

Term	Definition
<b>Return on investment (ROI) pricing</b>	A means of pricing that may be used when the fair annual rent (FAR) appraisal-based rental rate does not meet PBS' return objective.
<b>Solicitation for offers (SFO)</b>	Open source request for bids on a new leasehold relationship.
<b>Supplemental lease agreement (SLA)</b>	Lease form defining modified terms of a lease agreement after lease commencement.
<b>Tier</b>	Level of customization allowance provided to a tenant agency. Tier level is established by the Office of Real Property Asset Management based upon typical tenant agency use of space.
<b>Tenant improvement allowance</b>	The funding source that enables the space to be built out for occupancy to meet a tenant agency's specific requirements. To accommodate the varying space needs of tenant agencies, the tenant improvement allowance has two components: general and customization.
<b>Tenant improvements (TIs)</b>	The finishes and fixtures that typically take space from the shell condition to a finished, usable condition. The resulting space is complete, meets applicable building codes, and meets the tenant agency's functional needs.
<b>Usable space</b>	The area where a tenant agency normally houses personnel and/or furniture.