Client Enrichment Series

Welcome to today's presentation on:

Pricing & OAs 101

the presentation will start at 10:00 AM EST

Note: Phones are automatically muted during the presentation. You have the ability to send questions to the host and presenters through the chat feature. They will answer as many of the questions as possible at the end of the presentation. All questions will be captured, and answers sent to all participants within 2 weeks.

GSA Mid-Atlantic Region

Pricing / OAs 101

Client Enrichment Series

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Regional Pricing Subject Matter Expert

Legislative Foundation

- Why do we charge rent?
- GSA Administrator is authorized and directed to charge anyone furnished space and services at rates that approximate commercial charges for comparable space and services.
  - Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. § 586)
- Mandates that federal agencies to be fully reimbursed by their customer agency for the overhead and administrative expenses for services provided.
  - The Economy Act of 1932 as amended (31 U.S.C. § 1535)

Federal Management Regulation (FMR)

- Approved by OMB; interim rule May 8, 2001
- Pricing Policy for Occupancy in GSA Space:
  - "Rent for federally owned space….is based on market appraisals of fully serviced rental values."
  - "In cases where market appraisals are not practical…., GSA may establish rent on the basis of alternative market practices."

Pricing Principals

1) Fairness
2) Simplicity
3) Stability
4) Efficiency

Space Pricing

- Federally owned space:
  - Rent is based on Fair Annual Rent (FAR) appraisal
  - Or Return on Investment (ROI) with other charges added

- Leased space:
  - A pass through of the underlying lease contract rent
  - Any operating costs not performed through the lease
  - PBS lease fee
  - Security charges.

Rent Bill Comparison

Leased Space		Federally Owned Space	
	Shell Rent		Shell Rent
+	General TI Used	+	General TI Used
+	Operating Costs	+	Operating Costs
+	Real Estate Taxes		
=	**Market Rent**	**=**	**Market Rent**
+	Customized TI Used	+	Customized TI Used
+	Security Services	+	Security Services
+/-	Billing Adjustments	+/-	Billing Adjustments
+	Parking	+	Parking
+	Other Charges	+	Other Charges
+	PBS Fee		
=	**Agency Rent Subtotal**	**=**	**Agency Rent Subtotal**
+	Joint Use	+	Joint Use
=	**Total GSA Rent Billed to Agency**	**=**	**Total GSA Rent Billed to Agency**

Types of Space/Building Class

- General Use
  - General office space and special-purpose space such as courtrooms, laboratories, and computer centers.
- Warehouse
  - Predominant use of space is warehouse.
- Parking
  - Building parking, standalone parking structures or surface lots.
- Unique
  - Land Port of Entry (LPOE) and other unique spaces.

The Occupancy Agreement (OA)

- Statement of the business terms between PBS and the tenant agency for a specific space assignment.
- Serves as the billing document.
- Covers financial specifics and responsibilities of both parties.
- Not a contract, but a formal interagency agreement

OA Term

- OA gives the tenant agency a right to occupy the space for a specific duration called the OA term.

- Leased Space
  - OAs should be coterminous with the lease
    - Option period not included

- Federally Owned Space
  - Standard OA term is 10 years
    - May be set for shorter or longer term

Revising an OA

- Events requiring a signature and revised OA:
  - Expansion
  - Services added or removed
  - Additional TIs are added
  - Revision of the OA terms (by mutual agreement)

Revising an OA

- Leased - Cover letter and revised OA (no signature):
  - Lease extensions
    - no changes in rent or square footage

Revising an OA

- Federal - Cover letter and revised OA (no signature):
  - Space reduction
  - Continuing occupancy
    - No change in USF or TI
  - 5 year fully serviced shell rate reset to market
    - No change to the USF
  - 5 year adjustment of ROI shell rate
  - Building remeasurement
  - Space errors identified through SDM process

Revising an OA

- Cover letter and revised OA (no signature):
  - Joint use amenities added or removed
  - Security fixtures or features approved by the Facility Security Committee (FSC)
  - Parking spaces added or removed
  - Antennas added or removed

Revising an OA

- Automatic updates (no signature or cover letter)
  - Operating cost changes
  - Real estate taxes (lease only)
  - Parking
  - Antennas
  - Building Specific Amortized Capital (BSAC) security
  - Joint use charges

Space Measurement

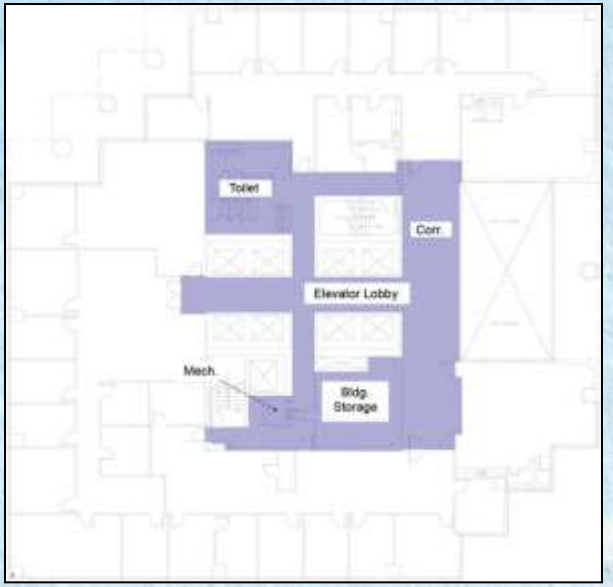
- Rentable square footage (RSF)
  - the area for which the tenant agency is charged rent
  - may include a share of building support and common areas.
- Usable square footage (USF)
  - the area where a tenant agency normally houses personnel and/or furniture.
- Common area factor (a.k.a. R/U factor)
  - a conversion factor determined by the building owner and applied to the USF to determine the space's RSF.

Space Measurement

- Usable Area = Assignable Space + Joint Use
- Rentable Area = Common Area + Usable area
- Building R/U = Building Rentable Area / Usable Area

Space Measurement

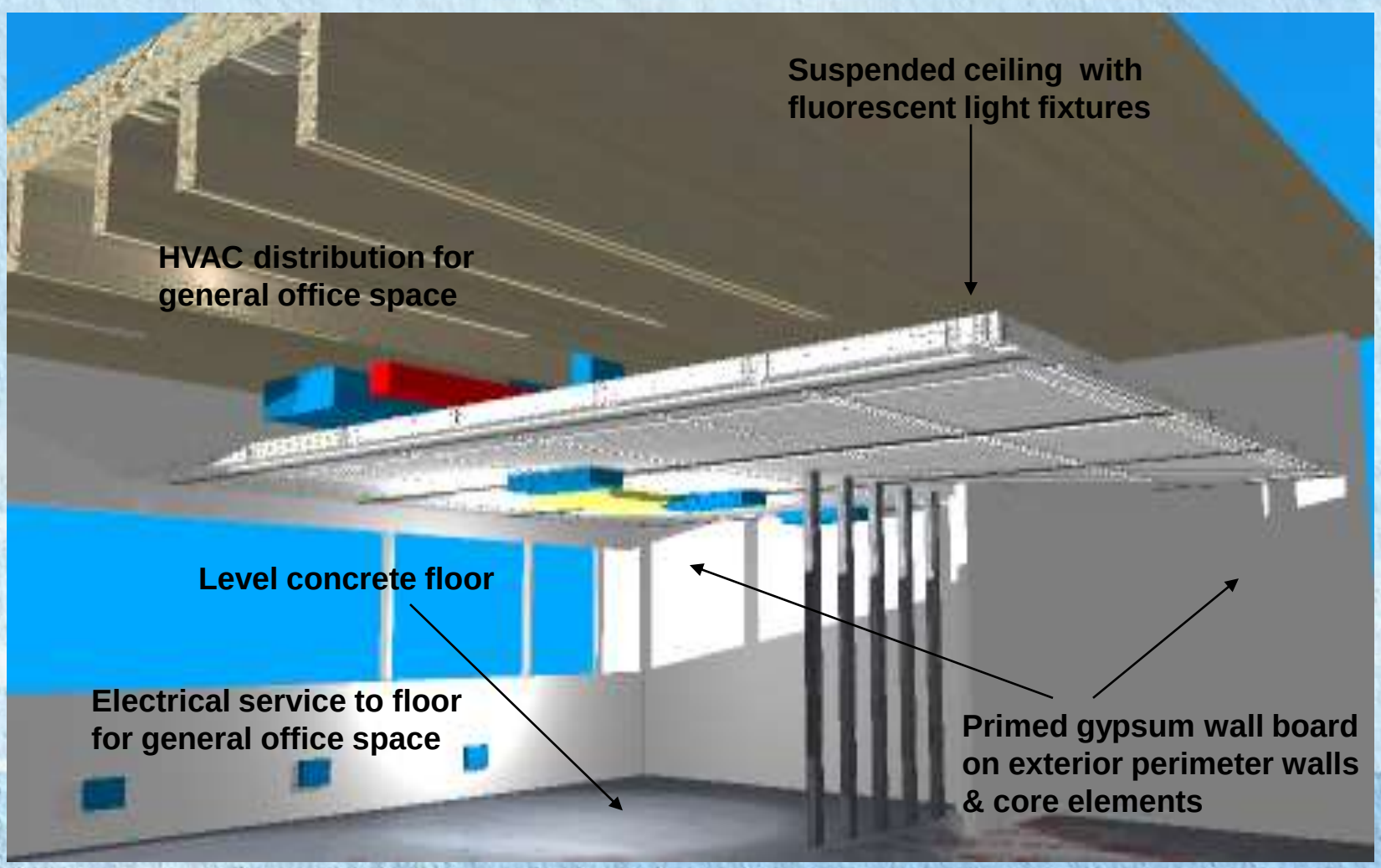
USF + Common Area = RSF



Building Shell

- Building Shell
  - The complete enveloping structure
  - Base building systems
- Shell in Base Building Includes:
  - Base structure and building enclosure (e.g., windows)
  - Base building electrical & mechanical systems
  - Finished common areas (e.g., lobbies, elevators, restrooms, garages)
- Shell in Tenant Areas Includes:
  - Wall board on exterior perimeter & interior core walls
  - Common corridor stud walls without gypsum board
  - Suspended acoustical tile ceiling with parabolic fluorescent lighting
    - Open office layout
  - Concrete floor

Building Shell



Shell Rent – Leased Space

- Pass through of the underlying PBS lease contract shell rent
  - Lease may have step rents
- Lessors use the shell definition in RLP to develop their rental rate
  - Design intent drawings (DIDs) are included in the shell requirements for leases
  - PBS policy is to include cyclic painting and carpet replacement in leases as a shell cost

Shell Rent – Federally Owned

- Shell rent based on a FAR appraisal (market based)
- Shell rents are established for 5 year periods
- At a minimum, a new FAR appraisal every 5 years
- Except for general storage space, all rentable area has the same shell rate

Tenant Improvement Allowance

- Funding source that enables the space to be built out
- Provides flexibility, choice, and savings incentives
- Commonplace in the commercial real estate market
- Allows both PBS and lessors to budget more reliably
- Helps comply with appropriations law and OMB's requirement that PBS limit amounts that can be amortized in rent

Tenant Improvements (TI)

- The finishes and fixtures that typically take space from the shell condition to a finished, usable condition.

- Tenant agency elects how its space is to be finished, as long as the space is finished, functional, and compliant with all applicable building codes and standards.

Application of TI Allowance

- Initial occupancies (including expansions)
  - Tenant agency provided the full TI allowance
  - Tenant agency cannot use an RWA to buy down the general allowance in first generation space
- Backfill occupancies
  - Full TI allowance may be provided to tenant agency (subject to availability of funds)

Typical Tenant Improvements

- 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 using TI 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.

Typical Tenant Improvements

- 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

Typical Tenant Improvements

- All special HVAC components required by specific tenant agency needs, and tenant agency program equipment
  - Supplemental power, cooling or heating (above base capacity)
  - Higher rates of air exchange (if it entails additional or upgraded air handling equipment)
  - Pathogen control systems
    - Agencies are responsible for O&M and replacement of these items when they fail or require replacement.

- 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
  - Ceiling grid adjustments and consequent repositioning of sprinkler heads to the center of ceiling tiles.

Typical Tenant Improvements

- Tenant agency signage in the common corridor and within the tenant agency area.
  - Directory in building lobby is building shell.
- Changes or additions to the open-plan lighting pattern or HVAC distribution network to accommodate individual office layouts.
- Upgrades or changes to building standard items
  - Ex: plaster or vaulted ceilings, specialty lighting, 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.

Application of TI Allowance

- Mid-occupancy/post-initial occupancy
  - TIs typically funded by the tenant agency
  - No obligation for GSA to provide TI allowance
    - Subject to availability of funds, full or partial TI allowance may be provided to tenant agency
- Continuing occupancies
  - TI allowance requested typically just minor alterations or carpet and paint
  - Leased Space
    - Tenant agency may be provided the full TI allowance
  - Federally Owned Space
    - Tenant agency provided the full or partial TI allowance, subject to availability of funds

General TI Allowance

- Takes the space from shell to “vanilla” office space
- Set nationally and indexed to local construction costs
- Covers cost of “typical” office finishes
  - Doors
  - Partitioning
  - Carpeting
  - Electric & telephone outlets

Custom TI Allowance

- Customization allowances are a percentage of the general allowance
- Takes the space from “vanilla” office space to space specifically designed to function for a particular tenant agency
- Not intended to eliminate the need for lump sum RWA payments
- After allowance is established, there is no need to break out costs of custom and general

Custom TI Allowance

- Examples 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
  - sound attenuation

TI Allowance by Tier

- PBS created a series of customization tiers - tier 0 to tier 6
- Each tier is equal to 10% of the value of the general allowance
- Each tenant agency and bureau is assigned a tier
- General Allowance = Based on Location
- Custom Allowance = General Allowance x 10% for each tier
- Total Allowance = General Allowance + Custom Allowance

Amortization of TI Allowances

Leased Space

- Amortization term usually the firm term of the lease
- 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.
     - *Exception: Lessors, with PBS and tenant agency agreement, can set an amortization term beyond the lease's firm term provided no lump-sum costs are due if PBS exercises termination rights or leaves at the end of the lease term.*
- Multiple amortization periods can be done for special cases such as phased projects

Amortization of TI Allowances

Federally Owned Space

- Standard amortization term is 10 years
  - Amortization period for courtrooms and chambers assignments can be 20 years
- 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
- Multiple amortization periods can be done for special cases such as phased projects
- Interest rate set annually: 10 year Treasury plus 12.5 basis points

TI Cannot Fund Personal Property

Examples Include:

- Furniture
- Microwaves
- Refrigerators
- Artwork
- Personal computers
- Audiovisual equipment
- Televisions for conference rooms
- Phone handsets
- Physical relocation expenses of personal property

TI Lump-Sum Payment Options

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 General TI allowance – RWA For relet space, any part of the allowance – RWA
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

TI Lump-Sum Payment Options

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

Operating Costs

- Leased Space
  - Direct pass-through of lease contract cost for standard services to customer agency
  - Typically escalated annually by CPI
- Federally Owned Space
  - Based on market appraisal, not PBS costs
  - Reset to market every 5 years
  - Escalated annually by OMB inflation factor

Op Costs - Utilities

- Leased Space
  - Consistent heating or cooling for one shift (minimum of 10 operating hours)
  - Lease may provide HVAC hours in excess of 10 hours depending on local market practice
  - Lease should reflect the building's normal operating hours
  - Reimbursement required for HVAC outside normal hours specified in lease

Op Costs - Utilities

- Federally Owned Space
  - Provide 10 hours consistent heating or cooling
  - Property Manager, in consultation with tenants, determines standard building hours
  - Reimbursement required for HVAC outside normal hours specified

Op Costs – Maintenance

- Federally Owned Space
  - Building standard 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
- Tenant agencies are responsible for the O&M of their program-specific equipment

Op Costs – Custodial Services

- Federally Owned Space
  - PBS provides cleaning at a standard comparable to commercial cleaning for similar space
  - The regional property manager, in consultation with tenants, determines standard cleaning hours
  - The standard is set based on the requirements of the majority of the tenants

Standard Custodial Services

Federal Space	Leased Space
Vacuuming, sweeping, and dusting	Essentially the same
Damp mop and spray buff resilient floors	Essentially the same
Emptying and hauling trash	Essentially the same
Servicing restrooms, lobbies, corridors, and other common areas	Essentially the same
Servicing loading docks and platforms	Essentially the same
Washing windows (at least one washing per year or more as determined by region)	Washing windows twice a year
Carpet spot cleaning	Plus shampoo every two years
Snow and ice removal, and lawn and grounds maintenance	Essentially the same
Integrated pest management	Essentially the same

Real Estate Taxes

- Leased Space
  - Direct pass-through
  - Pro rata share of the annual tax based on percentage of occupancy
    - For partial years, the number of months the space has been occupied
  - Base year real estate tax in the OA Financial Summary
  - Real estate tax adjustments are made based on the local municipality's tax year
- Federally Owned Space
  - No separate rent component for real estate taxes because shell rent inherently includes this expense

Building Specific Amortized Capital

- Security items that are a separate capital investments in the property
- Not included in the building shell or TI
- Separately charged to agency on rent bill

Building Specific Amortized Capital

- Leased Space
  - Amortization period is usually the firm term
  - Charges and amortizations are negotiated with the lessor
- Federally Owned Space
  - Amortized at the TI rate at the following term
    - 5 yrs – equipment funded by prospectus
    - 10 yrs – minor R&A – existing building
    - 20 yrs – major R&A – existing building
    - 30 yrs – new construction

Typical BSAC

- Progressive collapse
- Window glazing
- Blast-resistant windows
- Vehicular barriers
- Garage doors
- Parking lot fencing
- Gates
- Doors
- Locks
- Guard booths
- Card readers that serve solely as a locking mechanism at the building entrance

Antennas

- Leased Space
  - Only charged if lessor is charging PBS, in which case it is a pass through to the tenant
- Federally Owned Space
  - Base Year charge
    - Escalated annually per OMB inflation factor
  - Appraisal based

Parking

- Parking is charged on a per-space basis
- Leased Space
  - Parking rate may be included in the shell rate
- Federally Owned Space
  - Rate per space based on FAR appraisal
  - Follow prevailing local market practice, generally annual adjustments of parking rates
    - Separate charges for surface or structured
    - Can charge separately for reserved or unreserved

PBS Fee

- Flat 7% fee applies to all lease actions
  - Non-cancelable space exception – 5% fee
  - USPS controlled space exception – 4% fee
- Fixed at 7% regardless of the services that a tenant agency may wish to self perform
- PBS fee covers
  - Contract risk
  - Lease acquisition services
  - Lease administration

Joint Use

- Joint use amenities are public good amenities that include, but are not limited to:
  - Government-provided cafeterias
  - Randolph-Sheppard concession stands
  - Childcare centers
  - Fitness centers
  - Public Health Service wellness units
  - Shared conference rooms
  - Credit unions
  - Visitor parking spaces
- Joint use charges apply whether or not employees of the tenant agencies elect to use the amenities.

Types of Joint Use

- Building – amenities housed in the building available only to the tenant agencies in the building
- Lease – amenities housed in the leased building are available only to the tenant agencies in the lease
- Facility – amenities are shared among two or more buildings that are designated as a facility within the inventory system
- Community – amenities housed in one building are available to tenant agencies in neighboring buildings
  - To be included in the community, the other buildings must be within a reasonable distance to the amenity
  - Written notification of inclusion in the community
  - Time to budget for the joint use charge

Customer Rights - Cancellation

- Prior to Contract Execution
  - No fault cancellation
- After Contract Execution, Prior to Occupancy
  - Agency is liable for the lesser of these two costs:
    - 16 month rental obligation had it occupied the space, plus the unamortized balance of the TIs
      - Or the total project cost in federal space
      - Or the lease buyout costs

Customer Rights - Return of Space

- With 4 months' written notice, tenant has right to release space to PBS provided the following conditions are met:
  - There is no longer a need for the space
  - The space is in marketable blocks
  - The space is not designated as non-cancelable
  - The tenant is at least 16 months into occupancy

Move Policy

- Agencies are responsible for funding their own physical moves and telecommunication costs. Customer agencies in both leased and federally owned space can expect to fund all move costs at the end of their OA term.

- *Exceptions:*
  - *Forced moves – Forcing agency responsible. If PBS interrupts an agency's OA term, PBS is considered the forcing agency.*
  - *Emergency relocations due to disasters or crises - PBS may fund the moves up front, subject to funds' availability*

Questions?