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Chapter 1: Introduction

This Desk Guide presents the policies and procedures the Public Buildings Service (PBS) uses to price real estate and related services to Federal agencies. It is designed to guide PBS personnel in the performance of their work, but it also serves as a resource for customers interested in acquiring a more thorough understanding of PBS pricing policy and its application.

These policies and practices were known as New Pricing, when first introduced in 1996. With the publication of this third edition of the Desk Guide, we have included a Companion Document complete with an Index. We believe the addition of the Companion Document serves as an enhancement to the Desk Guide by providing information that aids in its use.

This publication is not a user's guide for the software application System for Tracking and Administering Real Property (STAR), the Occupancy agreement (OA) Tool or the billing process. A separate guide already exists for the OA Tool, which has been updated. A STAR Desk Guide is planned as a reference source to help PBS realty personnel identify the correct fields and screens to use to enter various rent charges and fees. A users guide to the billing process is also under consideration.

This guide replaces all earlier versions, including the second edition. The changes are the consequence of a number of influences. These include further refinement in the conceptualization of the policy; greater understanding borne of practical experience in applying the policy, and careful weighing of customer commentary and reaction. Any necessary future modifications will be issued as additional changes to the Desk Guide.

Pricing Overview

Transaction Pricing: Each PBS real estate transaction with a customer agency is free-standing and priced independently.

Occupancy Agreements: Each space assignment in PBS-controlled space has an agreement between PBS and the customer agency, stating the financial terms and the conditions for occupancy.

Tenant Allowance: A dollar amount per square foot is set to cover the cost of typical office finishes needed to deliver usable space to tenants.

Leased space Rent based on the PBS lease: Leased space is generally priced as a pass-through of the underlying PBS lease contract Rent, plus a PBS fee, and security charges.

Government-owned Rent tied to market by appraisal: An appraisal based on comparable properties sets a market rate Rent for a five-year period. Operating costs receive annual adjustments based on the Consumer Price Index (CPI) - through FY 2002 and on OMB's inflation factor beginning in FY 2003.

Simplified Customer Bills: Space charges are now itemized separately for:

- A building shell rate;
- Operating expenses;
- A PBS fee for services in leased space;
- Joint-use space and parking;
- Security services, including a charge for basic security, and, as applicable, charges for building specific operating and amortized capital security costs; and,
- The amortization of the general and customized components (each shown separately) of the tenant improvement allowance used.

Industry-Recognized Space Measurement Method: PBS measures space in rentable and usable square feet, following the ANSI/BOMA definitions for these terms. PBS bills agencies for their space on the basis of ANSI/BOMA rentable for easy comparison with market equivalents; it also tracks ANSI/BOMA usable for ease and precision in analyzing lease offers and space use.

Pricing Policy Changes

What has changed since the second edition? Basic Fees and Pricing

- Explanation of the GSA 8 percent fee and what it includes.
- Definitions for non-cancelable space, portfolio leases, and many other pricing terms.
- A compendium of pricing conventions for both owned and leased space.
- Impact of adopting the ANSI/BOMA space measurement standard on the space inventory.
- Guidelines for when PBS regional office staffs may exercise their discretion in customer negotiations.
- Description of the services provided for security charges.
- Detailed discussion of how space is priced under each of three generic occupancy categories: new, continuing, and backfill.
- Guidance as to when an Occupancy Agreement needs to be amended.

Pricing Policy for Special Cases

- Antenna site pricing guidance.
- Return on Investment (ROI) pricing.
- Guidance on how to price space when the U.S. Postal Service is the tenant or the lessor.
- Guidance on how to price space for Congressional offices.
- A revised and clarified move policy.

Tenant Improvement Policy

- A comprehensive and uniform building shell definition, which establishes the point at which tenant improvements begin.
- Specific guidance on the scope of tenant allowances and amortization terms for tenant improvements.
- Clarification of PBS responsibility for cyclic paint and carpeting.
- Directions on how lump-sum tenant payments are billed.

Applicability

This Desk Guide sets policy for the entire PBS-owned and leased portfolio, and provides pricing direction for both general cases and special circumstances, although there will always be exceptions. For cases when there is no written policy, or where an exception is sought, consult with your Portfolio Director. Regional Portfolio Directors have the authority to modify operating procedure within the general framework of pricing to fit special circumstances.

You should follow this Desk Guide's policies for all future PBS real estate transactions. PBS will honor the terms of the following agreements developed before this guidance was issued:

- Existing Occupancy Agreements or those being negotiated prior to issuance of this Desk Guide edition.
- Other documented agreements between PBS and customer agencies with terms deviating from this Guide.

Chapter 2: Key Pricing Elements

The PBS portfolio includes both federally-owned and leased space. There are several differences in the way PBS prices these two broad categories of space holdings, but the key elements of the pricing policy are common to both. This chapter addresses those key common elements. They are: the Occupancy Agreement (OA), the building shell, the tenant allowance (TI), and the ANSI/BOMA measurement standard. These elements are described in detail below.

The Occupancy Agreement (OA)

The OA is a complete, concise statement of the business terms governing the relationship between PBS and the customer agency for a specific space assignment. By “business terms” we mean both the financial specifics of the agreement as well as the responsibilities of PBS and the customer agency. The OA is not a lease, nor is it a document detailing building rules and regulations. It is a formal mutual agreement between the signing parties; PBS will honor its terms and we expect the customer agency to honor its terms as well. The OA consists of four parts:

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

The intention is to develop and update the OA through successive iterations, from preliminary budget estimates, through to final, definitive pricing. Thus, the OA serves as a preview of the customer agency's total Rent charges. By revising and updating the preliminary OA as more information is available, we are sharing with the customer agency how the business terms evolve throughout the space acquisition process and/or design and construction process. Working collaboratively with customers to develop the OA will help to eliminate Rent disputes and appeals that occurred with earlier pricing methods.

2.1.1 Description of Space and Services

This section outlines the square footage in both rentable and usable terms, number of parking spaces, type of space, building name and address, and the occupancy term.

Occupancy Term

The occupancy agreement confers upon the customer agency a right to occupy the space for a specific duration: the OA term. Agencies do not have a perpetual right to occupy space. This is true for federally owned as well as leased space.

Federally Owned Space

OAs in federally owned space may be set for long terms—up to 20 or 30 years—but shell rents cannot be pre-set for periods in excess of five years. For example, an OA can be written for a 20 year term, but specifies that the shell rent will be marked to market every five years. Ten years is the recommended norm for an OA Term in federally owned space; however, that horizon can be adjusted sharply up or down for numerous reasons.

Because the OA conveys a right to occupy the space for a specific period of time to the customer agency, PBS Asset Managers must limit OAs to terms that will not impede a major modernization or other planned event, including disposal, which would necessitate vacating the building. If PBS grants an occupancy term to an agency beyond a date by which a building must be vacated for a PBS-initiated event, PBS must fund the customer agency's move, in accordance with policy explained in Chapter 5. Uncertainty regarding when authorization and funding will be approved for a specific building modernization will drive PBS, as the modernization draws near, to use "year to year" extensions in OA terms.

Leased Space

OAs in leased space should be coterminous with the lease firm term. OA durations can be longer than the firm term in cases where the lease has been written to allow the government to cancel after a certain period of time has elapsed, but which otherwise runs through a later date. In the cases of leases with specific option periods, whether pre-competed or not, the option period should not be included in the OA term. It is not appropriate to write the OA to cover the option period whether or not the option was competed with the initial procurement because, when the option matures, PBS must still determine if the option has value relative to the market at that time. It is not a forgone conclusion that the option will be exercised. Except in the cases of Portfolio Leases (see Chapter 7) PBS should never commit to a lease term in excess of the term the customer agency is willing to commit to in the OA.

2.1.2 Compendium of Clauses

This section addresses the responsibilities of PBS and the customer agency. There are three sets of clauses

- PBS "Boilerplate" or Standard Clauses
- Agency Specific Clauses
- Ad Hoc Clauses

PBS Standard Clauses

The clauses contained in this section (See Appendix A) succinctly spell out the obligations of both PBS and the customer agency during the acquisition and/or design and construction of space as well as during occupancy. The standard clauses are to be included in every Occupancy Agreement and are mandatory. These clauses are a recent addition to the OA structure; they were developed in response to the lack of specificity in the pricing chapter of the Federal Management Regulation (FMR), which replaced the Federal Property Management Regulation (FPMR). The FPMR does not address in detail the responsibilities of PBS or the customer agency.

Agency Specific Clauses

The clauses contained in this section outline terms and conditions that a particular agency or bureau have agreed to use nationally in every OA.

Ad Hoc Clauses

The clauses contained in this section consist of various terms and conditions that may or may not have applicability, depending upon the specifics of each assignment.

2.1.3 Financial Summary

The financial summary provides a preview of the customer agency's Rent bill (see Appendix B). It itemizes cost components that contribute to calculating the monthly rent payment, summarizes lump sum payments, and recaps the financial terms. The OA serves as a planning and budgeting tool to aid the customer agency in the understanding of future obligations and to enable the agency to make choices that affect those outcomes. Some examples:

- If, based upon the particular finish standard which the agency has chosen, the OA Financial Summary indicates a certain lump sum payment will be required, the agency may decide to adjust the finish standard, resulting in a lower projected lump sum payment for tenant improvement costs in excess of the allowance.
- If, when initial bids on the tenant work package come in, the bids are lower than what PBS projected, the customer agency may decide that, since the allowance will go farther than originally thought, they want to add to or upgrade elements in the tenant work.¹

The potential for using the OA as a forecasting tool for Rent and lump sum payments underscores the need for PBS to continue to update the OA with accurate data and the need for the customer agency to continue to refer to the OA to guide in decision-making.

2.1.4 Signature Page

For all space assignments, PBS policy is to secure agency agreement, via signature on the OA or another signed means, prior to PBS incurring significant costs to pursue the project or procurement (e.g., awarding a lease contract, purchasing a site, or awarding a building design contract). Some agencies may be resistant and/or hesitant to sign preliminary OAs for fear that they will be "locked into" certain decisions or that the signature renders them financially liable in the event they cancel the project at a later date. As made clear in the OA standard clauses, the customer agency has the right to change its mind on all matters unrelated to the decision upon which PBS's funding depends. PBS policy provides the customer agency with a "no-fault" cancellation right up until PBS executes a lease or, in the case of a federal construction project, purchases a site (if applicable) or awards a contract to a design architect. PBS will make no claim against a customer agency for any PBS- borne cost pursuant to the normal pursuit of occupancy in either leased or federally owned space, if the customer agency withdraws from the project before PBS reaches the point of executing a lease or a design contract. However, extra services which the customer agency may have requested which fall outside the scope of services that PBS provides as part of our fee (see Chapter 3) are typically funded in advance of performance, but if PBS executes such special services without prior reimbursement then PBS reserves the right to pursue reimbursement with the customer agency.

When a customer agency is being displaced against its will, there may be resistance to signing an OA at any point. In these cases, PBS may proceed without agency signature on the OA, provided PBS is able to demonstrate that it attempted to secure the forced customer agency signature and it gave the forced customer agency opportunities to influence the project. Evidence of the communication effort should be kept in the project file.

¹ In this case, changes in tenant work scope may affect the project schedule, so the full consequence of any contemplated changes must be discussed with the customer agency before proceeding. Often, to cover both the case of higher-than-expected and lower-than-expected bids, the tenant work is bid with a set of add/alternates, which enable the work to proceed with little or no schedule impact.

Additionally, in some instances, PBS must act timely to protect the government's interest with or 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 agency) to avoid a holdover tenancy. In such cases, the approval of the Regional Portfolio Manager should be obtained before proceeding.

2.1.5 Executing OA's: For All PBS Space

Eventually every space assignment in the PBS portfolio is to have its own OA. Each assignment is recorded in STAR as one or more Client Billing Records (CBR).

Existing PBS policy requires OAs on all new lease actions completed on or after October 1, 1997 (FY 98) and all new actions in federally owned space completed on or after October 1, 1998 (FY 99).

Parameters for establishing OAs for the balance of the inventory have been established for federally owned and leased space as follows:

Federally-Owned Space

Each CBR in federally owned space has a shell rate expiration date. PBS is to prepare an OA for CBRs in federally owned space as the shell rate expires. The shell rates for the balance of the inventory will expire at approximately 20% a year over the next five years, beginning with FY2000. Pending the negotiation and execution of an OA for any space that does not currently have any OAs in place, PBS policy is to treat the customer agency as having an indefinite occupancy right.

Leased Space

In existing leased space, there is no requirement to negotiate an OA before the expiration of the lease firm term. At the time PBS takes a replacement lease action (i.e., renewal, succeeding, superseding, extension, or new lease) or an expansion of an existing lease, an OA should be prepared. Regions have discretion to prepare OAs earlier than expiration dates. Lease characteristics which might warrant such OAs are those with stepped rent or with unusual provisions that affect Rent or unusual occupancy rights.

Portfolio Leases

Portfolio leases are treated as federally owned space for pricing purposes. OAs for these leases are to be in place prior to the end of FY 2001.

Delegations

Existing leases where operation and maintenance responsibility have been delegated to the tenant agency must have OAs.

2.1.6 General Guidance on Preparing OAs

The OA preparation and execution schedule can and should be accelerated if the PBS Realty Practitioner sees a modernization and/or disposal action within the five-year horizon. If PBS can provide timely notice of the need to terminate an occupancy - as in giving the customer agency adequate time to budget for the move - then it is prudent to negotiate OAs with the affected customer agencies as soon as possible. A customer agency cannot avoid the obligation to budget for the move by refusing to cooperate in negotiating the OA, or by delaying signature. Under such circumstances PBS needs to provide the customer agency with the opportunity to participate in OA generation, but if the agency refuses, PBS will

formally notify the customer agency of the impending action, send a copy of the OA to the customer agency, and proceed with the project. The project file should document the efforts undertaken to communicate with and involve the customer agency in creating the OA and in the planned move.

Additionally, beginning in FY 2000, the National Office of Portfolio Management is requiring allowance requests for capital projects to be accompanied by an OA - either signed by the customer agency or with evidence that the customer agency has seen and accepted the OA and is not contesting estimated costs/charges. Accordingly, before submitting an allowance request to expend funds for capital expenditures in federally owned space, regions must secure the customer agency's signature on the OA, even though the economic terms may still be provisional and/or estimates, and therefore subject to change. The signed OA accompanies the allowance request. Capital projects in federally owned space, which do not have tenant-specific components (e.g.; roof replacement, elevator modernization, base building electrical upgrade, etc.) are exempt from this requirement.

In the case of both owned and leased space, the customer agency has the right to request that an OA be prepared prior to the date PBS is scheduled to prepare the OA.

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2.1.7 Amending an OA

From time to time, it may be necessary to revise or amend an OA. There are many events that might occasion a revision to an OA:

- An agency expands or contracts at an existing location.
- Real estate services are added or deleted.
- PBS agrees to fund additional tenant improvements that are then amortized over the remaining OA term, or over an extended OA term.
- PBS physically remeasures the space and discovers that the true square footage for the space assignment is different than the square footage of record. (See the ANSI/BOMA discussion later in this chapter.)
- Joint-use space is added to or subtracted from the building.
- The level of building-specific security services changes, or PBS undertakes new capital expenditures for new or enhanced security countermeasures.
- PBS or the tenant agency wish to revise the OA term.

Whenever an OA is to be amended, the process entails notifying and involving the customer agency in the revision/amendment. Occupancy Agreements do not have to be amended for annual escalations in any of the following categories:

- Operating expenses
- Real estate taxes
- Parking charges
- The basic security charge
- Building-specific security operating expenses which do not entail a change in service level

- Building-specific amortized capital expenditures which constitute the periodic recurring expense associated with equipment replacement (e.g., cameras, X-ray machines, magnetometers, etc.) but which do not entail a change in the level of security.

Additionally, OAs do not need to be amended for the recurring five-year shell rate re-adjustment in owned space, or any programmed change in the lease contract rent (such as pre-set bumps or steps in the contract rent rate) as long as these are identified in the initial OA.

If the level of service is changing in a building, then PBS is not free to change the bill without first amending the OA.

The Building Shell

The second key element of the pricing policy-common to owned and leased space-is the concept of the building shell. This concept works in concert with the tenant improvement allowance, which is discussed later in this chapter. 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 bound the tenant areas. Where the building shell ends is the beginning point for tenant improvements. It is commonplace in the commercial real estate world to observe this distinction between building shell and tenant improvements.

To ensure that tenant improvement allowances are applied consistently in all regions and all markets, this guide provides a standard definition of the elements of the building shell. The building shell definition applies to both owned and leased space.

Federally Owned Space

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 border stations.

Leased Space

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 customer agency desires upgrades to base building systems above SFO performance specifications, the way to accommodate the customer agency request is to list the upgrades separately and ask the offerors to price the enhancement(s). Tenant-driven upgrades to building shell are to be separately priced from the building shell and charged against the tenant improvement allowance.

For both owned and leased space, if a customer agency desires upgrades to base building systems or elements above SFO performance specifications, or above GSA Design standards for Federal construction, the way to accommodate the customer agency request is to list the upgrades separately and ask the prospective lessors for leased space or the general contractors for owned space to price the enhancement(s). Tenant-driven upgrades to building shell are to be separately priced from the building shell and charged against the tenant improvement allowance.

2.2.1 The “FireWall” Between Building Shell and Tenant Improvements

Both in terms of capital funding, and in billing, the boundary between building shell and tenant work is critical to the effective operation of PBS pricing policy in owned space. With one exception only (discussed below) the boundary between building shell and tenant work constitutes an impermeable barrier or “firewall” across which funding cannot move. The budgets for the tenant improvements and building shell- are independent and are not to be commingled or mixed. 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 tenant improvement costs. Conversely, if the bids to construct the building shell exceed the project budget for the shell, tenant allowances cannot be used to make up the difference. Rather, PBS must either 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, can funds be moved from the tenant allowance budget to the building shell budget, and then, only with the customer agency’s consent. The reason for this is that in the case of a prospectus-level project for which there is a “bid bust” on the building shell, PBS does not have the ready alternative of increasing the project’s budget; PBS must first seek Congressional sanction. Further, since the prospectus does not compartmentalize the budgets, and since the tenant work is still to come, it is possible that the entire project, when taken as a whole, can still be accomplished for the authorized funding. Thus, it is inappropriate to insist that we seek additional funding authorization before all alternatives are exhausted, including lowering the tenant allowance budget. Nonetheless, PBS cannot breach the firewall unilaterally, even for this single exception; the affected agency(ies) must be willing parties to the change. Moreover, seeking to lower the tenant improvement budget should only be undertaken after other remedies, including plans and specifications reviews, bid descoping, and value-engineering, have been examined.

2.2.2 Shell Definition

The shell definition provided below establishes a comprehensive market-based boundary between building shell and tenant work. Although some of the specifics may be at variance with the practice of local real estate markets, PBS must oblige prospective lessors and contractors to price shell as nationally defined so that tenant allowances have consistent coverage for all PBS customer agencies across the country.

The shell definition is not a prescription for how PBS or private sector lessors should design buildings or engineer base building systems. It merely marks the boundary between base building elements and tenant improvements. Some items are cited in terms of a ratio to the square footage. The ratios are stated in both ANSI/BOMA usable and rentable terms. Since Rentable to Usable (R/U) ratios differ by building, the rentable numbers are only approximations, provided for reference purposes. The ratios cited for usable are controlling.

The building shell includes the following items for the base building and tenant areas:

Base Building	Tenant Areas
<p>Base structure and building enclosure components (windows with exterior finishes) are complete.</p>	<p>Broom clean concrete floor slab, with level floor not varying more than 1/4 inch over ten (10) foot horizontal run in accordance with American Concrete Institute (ACI) Standards.</p>
<p>Base building electrical and mechanical systems (central fire alarm, chiller plant, cooling tower, etc.) are complete and functional.</p>	<p>Gypsum wallboard, spackled and prime painted, on exterior perimeter walls and interior core walls are installed.</p>
<p>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.)</p>	<p>Fully installed 2 X 2 foot suspended acoustical ceiling with 2 X 2 parabolic fluorescent (or other building standard such as 2'-0" X 4'-0" fixtures) installed in the ceiling grid for an open office plan at the rate of one fixture per 80 BOMA usable (100 rentable) square feet, is installed.</p>
<p>Building common restrooms are complete and operational.</p>	<p>Common corridor stud walls, without gypsum board on demised tenants' premise side and without suite entry door, are installed.</p>
<p>Building cores on each floor with leaseable space contain the following: Tappable domestic water riser, service sanitary drain, sanitary vent, ready for extension to tenant demised area(s).</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 phases, 4 wiring providing 7 watts per BOMA usable (5 watts per rentable) square foot.</p> <p>Designated connection point to the central fire alarm system for extension to tenant demised area(s).</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 systems are installed and operational, including, as appropriate, main and branch lines, VAV boxes, dampers, flex ducts and diffusers, for open office layout. Conditioned air through medium pressure ductwork at a rate of .75cfm/square foot of BOMA 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>

The following section explains what items are not included in the building shell. This section is not to be included in SFOs. It is provided as further guidance to aid understanding of the boundary between building shell and tenant improvements.

2.2.3 Tenant Improvements

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

Similarly, standards identified in design guides for border stations, courthouses, etc., are not part of the building shell merely because they are called "standards."

With the exception of certain security improvements listed below, tenant improvements constitute everything that is not in the shell or that changes the shell. Typically, they consist of:

Typical Tenant Improvements
Electrical and telephone outlets and wiring from the tenant demised premises to the building core.
Carpeting or other floor covering; raised access flooring.
Plumbing fixtures within the demised premises and connection to the building core.
Partitioning and wall finishes.
Doors (including suite entry), sidelights and frames, and hardware.
Millwork.
Fire alarm wiring from building core to tenant space and then within tenant 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 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 needs.
Adjustment or repositioning of sprinkler heads so as not to conflict with tenant's particular office partition layout; additional sprinklers required by local code to meet tenant's layout, or ceiling grid adjustments and consequent repositioning of sprinkler heads to the center of ceiling tiles.
Tenant signage in the common corridor and within the tenant's demised 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, etc. 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 non-conventional floor loads, such as a library. (The cost for structurally changed space is no longer borne by the tenant through a continuing premium rent charge.)
Private bathrooms, private elevators, or staircases within tenant space.
Security systems and features within tenant space are part of tenant improvements; specialty security systems and features for the entire building requested by tenants (usually through the building security committee) are neither building shell nor tenant improvements. They are a separate capital investment in the property and charged to agencies as part of the building specific security charge.

Tenant Improvement Allowances

Tenant improvements are the finishes and fixtures that typically take space from the “shell” condition to a finished, usable condition. The tenant allowance works in concert with the building shell. A tenant improvement allowance is the funding source provided by the building owner (the lessor in leased and PBS in federally owned) that enables the space to be “built out” or “fitted out” for occupancy to meet a customer agency’s specific requirements. New Pricing introduced this private sector practice of giving tenants a monetary allowance to finish space. With the adoption of the monetary allowance concept, PBS abandoned both the practice of classifying space into 16 categories and the practice of applying normative standards to those categories. PBS gave up prescribing what the space should look like, and is now concerned only that the space is complete, meets applicable building codes, and that it meets the customer agency’s functional needs.

Tenant Improvements Allowance Rationale

PBS had multiple reasons for creating a monetary Tenant Improvement Allowance (TI). The principal ones are that allowances:

- Provide tenants with flexibility, choice, and savings incentives.
- Are commonplace in the commercial real estate market.
- Allow both PBS and lessors to budget more reliably since respective obligations are defined at the outset.
- Enable discreet treatment of tenant improvement costs in the Rent, allowing clear tracking of amortizations.
- Help PBS comply with appropriations law and with the OMB requirement that PBS set limits on amounts that can be amortized in Rent.

Tenant Improvement Allowance Structure

To accommodate the varying space needs of customer agencies, the tenant improvement allowance has two components: *general* and *customization*.

For the customer agency portion of the project costs, there is no longer a cost estimating process, rather the task becomes one of plugging in the right value for the tenant improvement allowance that PBS will accord the customer agency. Determine the customer agency TI as follows:

- Look up the agency’s customization tier.
- Add to the general allowance as indexed for the metropolitan area for the proposed project.
- Multiply the sum of the general and customization allowances by the usable area to be assigned to the customer agency.
- For a project with multiple agencies the same process is the same.

When constructing a new federal building, PBS will have to keep track of the separate customer agency allowances and what is charged against them for each customer agency. This will typically involve, in the case of multiple tenant agencies, separate bid packages for each customer agency's work, which is standard practice in the commercial real estate market. Note: Requiring separate bid packages does not mean that there must be separate contractors; it does mean, however, that contractors must distinguish between the tenant improvement costs for each tenant. PBS, like private sector developers, will probably hold off on the installation of the suspended ceiling (part of shell) and do it along with the tenant improvement work. This too is customary in the private sector; it merely requires that the general contractors break out their costs between shell and tenant improvement work.

General Component

The *general component* is a dollar amount per usable square foot set to cover the cost of typical ratios of normal office space finish components, such as doors, partitions, carpeting, electrical and telecommunication outlets or standard "work letter" items. The general component takes the space from "shell" to "vanilla" office space. This allowance is set nationally, adjusted annually, and indexed to local construction costs. The general tenant improvement allowance is accorded to all prospective customer agency tenants.

The Central Office of Portfolio Management issues the general allowance for Washington, D.C., the index city, annually. The FY 2000 rate for Washington, D.C. is \$31.92 per usable square foot. 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 cost factor can be found in the "General Construction Cost Review Guide for Federal Office Buildings," published annually by the Office of the Chief Architect. The OA Tool is programmed to adjust the general allowance when city and state fields are entered.

2.3.1 Tenant Allowances for Warehouses

In the case of warehouses, the default tenant allowance is 20% of the general allowance, as adjusted for locality. If the tenant allowance is to be used to construct offices or other habitable spaces within a building which is classified on the basis of its pre-dominant use as a warehouse, then the tenant allowance is to be used to construct all the improvements 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 in the case of a federally-owned warehouse (or a private sector lessor in the case of a leased warehouse) 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, etc., in the office area proper). The only way the building owner is compensated for these traditional office shell elements in warehouse buildings is by having all of the costs of the office build-out charged against the tenant allowance. The amortization of these TI costs in the Rent returns to the building owner the capital the owner invested in the non-warehouse fit-out.

Customization Component

The *customization allowance* is also a dollar amount per usable square foot, but it is tailored to individual agencies and bureaus. This component is intended to cover special items, preparations, or finishes which are not typical to all office space, but are necessary to customize the space for a particular customer agency. The customization component takes the space from "vanilla" office to space specific to the functioning of a particular customer agency. Examples of customization items include custom cabinetry or mill work, laboratory countertops and fume hoods, private restrooms, raised access flooring, upgraded ventilation for high occupancy uses, slab to slab concrete walls, built-in food service equipment, broadcast quality lighting or sound attenuation, etc.

PBS has created a series of customization tiers; 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 agency and bureau is assigned a tier based upon a computation which took the weighted average of the cost to PBS to construct all space assigned to that agency or bureau. All space assigned in 1996, in terms of the old 16 space classifications and their construction cost multipliers, was analyzed and a blended average obtained. The blended average represented what PBS would have spent to build-out a particular agency or bureau's space. It does not include what the tenant agency might have funded through lump sum RWA payments. The calculation of a customization tier for each agency and bureau is an attempt to replace in the form of a monetary allowance, what PBS previously provided as "standard alterations" for a set of special space classifications. 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.

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

Interest Rate of the Tenant Allowances

The interest rate for the amortization of tenant improvements is a function of whether the space is leased or federally owned.

Federally Owned Space

The interest rate is the same as the 10-year Treasury bond rate, plus 12.5 basis points. The resulting rate is also known as the Federal Finance Bank (FFB) rate, or the interagency borrowing rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in the spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment. The current and historical amortization rates for tenant improvements are posted (along with other rates such as the OMB discount rates and inflation factors, and prospectus thresholds) on the following web site: http://insite.gsa.gov/_pbs/pt/opm/frame2.htm

Leased Space

The rate is whatever the successful offeror, through negotiations with the government, has identified.

2.3.2 Amortization of the Tenant Improvement Allowances

Federally Owned Space

Ten years is the standard term for amortizing tenant improvements. Adjustments can be made for a specific occupancy and/or customer agency. There are two rules for limiting amortization terms for tenant improvements:

- Do not exceed the economic life of the improvements.
- Do not exceed the term of the Occupancy Agreement.

Tenants may shorten the amortization period, but under no circumstances may it be lengthened in violation of the above rules.

Leased Space

In leased space the amortization period will usually be the firm term of the lease. In some cases, lessors (with GSA and the tenant agreement) have employed compressed amortization terms that are less than the lease firm term. The two rules for limiting amortization terms apply also to leased space Multiple Amortization Terms.

Multiple Amortization Terms

More than one amortization period can be entered into one client billing record (CBR) within STAR. This should be done in special cases only, as in new courthouse construction.

The useful life rule for tenant improvements suggest that courtrooms and chambers built to a 50 plus year standard could be amortized with much of the office space over a period of 20 to 25 years, while the carpet and paint components of the allowance may only last five years. Accordingly, PBS could amortize 80 percent or more of the build-out cost for 20 to 25 years and hyper-amortize the remaining build-out cost over five years. This has the effect of dropping an increment of the tenant improvement cost in the Rent at the five year mark. Note: the amortization period cannot exceed the term of the OA.

2.3.3 Application of the Tenant Improvement Allowances

For any new occupancy, either leased or federally owned, PBS will arrange to amortize in the Rent (subject to funding availability in federally-owned space) an amount not to exceed the sum of the general and customization tenant allowances (see Chapter 4).

The tenant elects how the space is to be finished and thus controls the costs of the build-out. If less than the allowance limit is used, the resulting periodic payment will be lower.

While the tenant allowance is comprised of two components, PBS makes the sum of the two components available for any build-out expense. PBS does not monitor the use of the allowances to ensure that the general component is used only for office-type finishes and the customization component only for specialty work. The dollar sum of the two components represents a funding source for whatever buildout the customer agency elects, as long as the space is finished, functional, and compliant with all applicable building codes.

The tenant allowance (general and customization components) can only be used to pay for items that are real property, or which become real property when attached or affixed to the building. The tenant allowance is not available to fund personal property, such as furniture and artwork, personal computers, phone handsets, or physical relocation expenses of personal property. PBS lacks the authority to use the budget activities that fund the tenant improvement allowances for personal property purchases.

In the case of continuing occupancy in owned space where GSA gives a tenant improvement allowance, all soft costs (space planning, design, and construction management) as well as hard costs (labor, materials, general conditions, overhead, and profit for the general contractor and subcontractors) are charged against the tenant allowances. In the case of initial occupancy, whether in owned or leased space, space planning services and services provided by construction management firms hired for design development review are not to be applied to the allowances. These services are provided by PBS as part of the PBS fee. (See 3.2.10 PBS Fee, Space Planning for further information.)

Special note: the use of tenant allowances as a funding source for both hard and soft costs is consistent with continuing PBS policy to exclude design and M&IE costs when evaluating whether a repair and alteration project requires a prospectus. In determining the need for prospectus authorization, the evaluation is based solely on the project's hard costs: estimated construction costs and site cost, if applicable.

If a tenant 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 allowance. Using the tenant allowance to enhance or modify building shell is not a violation of the "fire wall" discussed previously.

Tenant-driven enhancements to the building shell are, by definition, tenant improvements; they are not shell elements. As explained later in this chapter, this definitional point is crucial to an understanding of who bears the funding responsibility for maintaining tenant-requested enhancements to building shell.

2.3.4 Lump Sum Payment Responsibilities and Options for Tenant Improvements

Customer agencies must fund any build-out costs above the tenant allowance through a lump sum RWA payment.

Customers also have a variety of options for making lump sum payments that effectively lower or replace the tenant allowance.. These options are only available, however, at the beginning of the assignment.

The options fall into two general categories. Payment methods are identified in Chapter 6, Customer Agency Rights and Options.

1. Customer Elects a Lower or Zero Customization Tier

An agency may, at its sole discretion, elect not to use any part of its assigned customization allowance. If an agency elects to waive or set the customization allowance lower than what PBS would otherwise accord the agency, this must be done before the issuance of an SFO, in the case of leased space, or, in the case of owned space, prior to PBS seeking funding for the project, and prior to the issuance of any contract for the design and/or construction of the tenant work. The customer agency's

election of a lower allowance must be recorded in the OA, and once the agency elects a lower allowance amount, it is fixed. This policy enables customer agencies that have a clear idea of the cost of the tenant improvements, and a clear idea of the funds they have available to make a lump sum payment by RWA toward the cost of those tenant improvements, than they would otherwise be able to make. (See Chapter 6).

The agency can elect to lower the allowance to any value between its assigned customization tier and the general allowance amount. Since for any project the allowance can be raised, upon agency request and with the consent of the asset manager, so too, can it be lowered.

Once the allowance is set, then PBS has agreed to fund the allowance from the FBF, and amortize the cost to the agency. If the agency then seeks, before occupancy, to buy down the allowance, the lump sum payment can no longer be by RWA; it must be through Rent (i.e., billed through STAR).

2. Customer Elects to Fund Tenant Work in "Relet" Space

In cases in which an agency will begin to occupy space which already has tenant improvements in place that were installed for a prior tenant, the customer agency can elect to fund the cost of modifying the space to accommodate its own requirements. This scenario may occur in the case of PBS backfill space, either owned or leased, as well as in the case of leased space new to the PBS inventory, (See Chapter 4). For backfill space, and for leased space new to PBS, the common required characteristic is that the space is "second generation" or "relet" space: it is already finished, with complete tenant improvements in place. Because tenant improvements are pre-existing, and because the rental rate for the space reflects these improvements (i.e., an "as is" rate), customers may elect to pay lump sum, by RWA, for the cost to modify or "customize" the tenant space to enable their own occupancy.

If space has existing buildout and if the customer agency can substantially use that buildout, with or without modification, then, the customer agency can pay lump sum to modify the space, and effectively waive all or any part of the general improvement allowance that PBS accords all tenants at the point of initial occupancy. The choice is the customer agency's. PBS is still required to offer the general allowance and the appropriate customization tier to all prospective Federal tenants at the point of initial occupancy.

Special Note: if the pre-existing tenant improvements in the "second generation" space are to be substantially or entirely demolished to make way for new tenant improvements, then the customer cannot invoke the right to waive the general allowance. In such a scenario, the space will essentially be returned to shell condition before new buildout takes place. In such cases, PBS needs to furnish the customer with, at a minimum, the general allowance. Customer agencies cannot waive the standard allowance in these cases.

2.3.5 Changing or Appealing an Agency Customization Tier

Given that PBS assigned each customer agency, at the bureau level, to a specific customization tier on the basis of an entire bureau's space holdings with PBS (blending together office with other types of usage) it stands to reason that for a new, predominately special purpose use, a bureau's customization tier may provide less funding for the tenant improvements than the bureau would have received under PBS's former pricing practice. By the same token, for a new, predominately office space use, the general and customization allowances may provide more funding than the agency needs to fit-out the office space. PBS accepts that since the allowance tiers were designed to fund an average blend of space types (average for each bureau) from time to time individual requirements will arise for which the assigned customization tier is inadequate. Regional Asset Managers have the authority, on a case-by-case basis, to raise the tier or otherwise increase the tenant improvement allowance when the unusual build-out needs of a proposed occupancy so warrant.

PBS policy is not to employ the general and customization allowances for projects in which PBS has done both: 1) extensive development of a space program of requirements (POR) for the tenant(s); and, 2) cost estimating, (using established national benchmarks or other measures, that determine the value of functional tenant space based upon that POR). For these projects, the tenant allowance is to be set in accordance with the benchmarks. 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 spaces. So, for example, instead of assigning the Administrative Office of the Courts (and the other federal tenants) to a tenant allowance consisting of the general plus their assigned customization tier, it is appropriate to set the tenant allowance as the value of the benchmarks. This still entails giving the customer agency a monetary allowance so that the customer can make choices between build-out elements.

For any specific space action, whether PBS contemplates a revision to a tenant allowance in accordance with benchmarks or as a consequence of an agency request, the standard for determining the tenant allowance is not the total cost of tenant improvements. Rather, the standard is to ensure that the revised allowance covers the cost of basic functionality for whatever the specific space use is. PBS is not obligated to ensure that the tenant allowance covers an agency's design guide or design guidelines. Whether developed in concert with PBS or independently, an agency's design guide typically provides for a wide degree of latitude in the selection (and value) of finishes and fixtures for tenant space. While a design guide may well inform the process of setting the tenant allowance, if different from an agency's assigned customization tier, PBS does not accept design guides as a substitute for the benchmarking process or the judgment of asset managers in setting allowance levels.

When granting a tenant approval to amortize TI costs over its assigned customization tier for a specific assignment, PBS asset managers must be cognizant of the impact the amortization of TI costs will have on the tenant's overall Rent. There is an upper boundary or limit on the amount of TIs that can be amortized. This upper boundary is the point at which the annual amortized cost of the TIs pushes the total Rent beyond the top end of the market. If build-out costs are high, one way to lower the annual amortized cost of the tenant improvements is to extend the occupancy term. This is a legitimate approach, but especially in leased space, PBS must ensure that the need to amortize tenant improvements over the longest period practicable does not take on undue importance in the overall determination of the real estate strategy as to lease term. Another way to lower the annual amortized cost of tenant improvements is for the customer agency to make a larger lump sum payment for tenant improvements at assignment inception.

If a client agency believes categorically that the customization tier to which they have been assigned is inadequate to meet their fit-out needs, they may appeal their tier level assignment to the National Office of Portfolio Management. Tier level appeals must demonstrate through an analysis of several occupancies, that the agency's or bureau's tier allowance is consistently and materially less than what would have been accorded under the previous pricing policy. An appeal of an agency's tier level assignment is not a Rent appeal and does not follow the Rent appeal process.

ANSI/BOMA Space Measurement Standard

PBS recognizes the space measurement standard promulgated by the American National Standards Institute (ANSI) and the Building Owners and Managers Association (BOMA). The reference publication is ANSI/BOMA Z65.1-1996, Standard Method for Measuring Floor Area in Office Buildings. The full ANSI/BOMA measurement publication is not included in this guide. Copies can be ordered through the BOMA website <http://www.boma.org> or by calling BOMA at 202-371-0181.

To convert the entire PBS inventory to the ANSI/BOMA standard in FY 00, PBS equated its own "occupiable" method of measurement to the ANSI/BOMA "usable" term, without re-measurement. PBS then used a blanket factor of 1.15 to convert the usable area to the rentable area. First, GSA's definition for occupiable space is not identical to ANSI/BOMA's definition for usable space. Secondly, the 1.15 conversion factor was merely a proxy for actual knowledge of the R/U factor. Upon re-measurement of the inventory in accordance with the ANSI/BOMA standard, whether by CAD or by field verification, PBS will find that both rentable and usable numbers will change for most assignments in most owned buildings.

2.4.1 ANSI/BOMA Standard Impact

There are essentially three main areas in which adoption of the ANSI/BOMA standard entails change for the PBS space inventory:

- Treatment of tenant-driven slab penetrations.
- Treatment of certain corridors that are in the control of a single tenant.
- Calculation of R/U factors.

Tenant-driven Slab Penetrations

Base building slab penetrations², such as elevator shafts, fire-egress stairwells, multi-story atriums, etc. do not count in either rentable or usable floor calculations. However, slab penetrations or voids made or designed to serve a specific tenant, are measured as if the slab were still there. In other words, the void counts in both the usable and rentable calculations. In PBS controlled space, examples of these voids include:

- Two-story spaces such as courtrooms.
- Auditoriums or stages with fly-lofts.
- Private elevators.
- "Communicating stairs" between floors but outside of the building core.
- Dumbwaiters.

²The ANSI/BOMA term for a slab void or cut is "vertical penetration."

For all tenant-driven slab penetrating space an additional rental charge is realized, not through the application of multipliers for space types, but through the increase in the customer agency's usable square footage equal to the area of the slab penetration. There is no need to re-blend shell rates or add premium or miscellaneous charges.

Special note: under ANSI/BOMA, if an entire floor is double height (such as the ground floor of certain buildings) there is no charge for the double height space on that floor because there is no penetrated slab to be measured. This will be true for some courtrooms and for some space housing Postal Service mail sorting operations.

Adoption of the ANSI/BOMA standard will have a pronounced effect upon courtrooms. When the existing inventory was converted to New Pricing in FY 2000, space that was previously classified as SP-3A (Structurally Changed) was billed at 1.75 times the appraised "as is" shell rate, and space previously classified as SP-3B (Courtrooms) was billed at 2.0 times the shell rate for that space. The surcharge was applied based upon the space classification, not upon the existence of a vertical slab penetration. Courtrooms built prior to FY 91 were classified as SP-3A and courtrooms built after FY 91 were classified as SP-3B under the prior pricing regime.

Starting in fiscal year 2002, the Administrative Office of the Courts (AOC) and PBS agree that Rent for slab-penetrating courtrooms and other space will be billed based upon the ANSI/BOMA square footage, including the square footage attributable to vertical penetrations of the slab. PBS and AOC recognize that it will take several years before all owned space is re-measured in accordance with ANSI/BOMA; the agreement is that PBS may begin to charge on this basis in FY2002. Other agencies besides the Administrative Office of the Courts also had space assigned to the SP-3A and SP-3B classifications. These spaces, as with all other space, should henceforth be measured in accordance with the ANSI/BOMA standard and Rent billed in accordance with the procedures detailed below.

The space classification for courtrooms (CRJ) needs to be retained for space management reasons. We have agreed to furnish the AOC with the total measured "footprint" of courtrooms, so that the AOC can report on courtroom inventory to Congress. Some of the space categorized as either CRJ or AUD penetrates the next level slab, and some does not. Only through actual examination of the physical space can one be sure.

A space classification of "TFC" or Tenant Floor Cut will be created in STAR to accommodate "Void" square footage for client-required vertical penetrations. The new classification should be available in STAR in early summer of 2000. Until then, regions may either hold inventory changes in abeyance, or balance building square footage in the interim and temporarily load the space to another classification until STAR is modified (but do not use CRJ space).

For any void space to be billed beginning in FY 2002, regions should enter void space into STAR under the TFC classification by August 15, 2000.

Circulation Corridors Within a Tenant's Exclusive Control

The ANSI/BOMA standard counts circulation corridors which are beyond the code requirements for fire egress but which are within the tenant's exclusive control, as part of the usable area. Upon re-measurement of the owned inventory, this will appreciably change the R/U factors in certain buildings, and, in time, the Rent.

Calculation of the Rentable-Usable (R/U) Ratios

The third significant change in store for PBS in adopting the ANSI/BOMA standard is the method for computing the ratio of rentable to usable area. The ANSI/BOMA method entails calculating a different R/U factor for each tenanted floor in a building. Each floor, using the ANSI/BOMA standard, has its own rentable/usable ratio. This ratio is computed by dividing the total floor rentable area by the floor usable area. (Note: for each floor, building common space, on that floor but not floor common space, counts in the usable square footage.) The individual floor R/U ratio is used to convert usable area(s) into "basic rentable" area(s); do this by multiplying the usable areas by the floor R/U ratio. The building R/U ratio, which is a single number per building, then converts the "basic rentable" areas into "rentable" areas. In essence, the building R/U factor distributes building common areas. One of the chief virtues of the ANSI/BOMA measurement method is that the rentable area for a tenant on one floor is not affected in the event of reconfiguration of floor common area on a different floor.

Currently STAR cannot accommodate separate floor R/U factors. This capability is planned for the future. Until STAR is programmed to provide for floor-by-floor R/U factors, PBS realty practitioners can create a separate spreadsheet in order to be fully compliant with the standard (see the ANSI-BOMA booklet, pg. 26-27 for spreadsheet template and instructions.) This will allow for the derivation of the proper rentable square footage areas, but until the STAR enhancement PBS policy permits the continued use of the one R/U factor per building.

Because changes between usable and floor common areas on individual floors will affect rentable areas on other floors, pending the STAR enhancement, billing adjustments driven by re-measurement should be timed to happen in concert for the whole building, so that customer agency Rent bills will be limited to a one-time change for re-measurement.

Implementation of the ANSI/BOMA Standard and Rent Billings

PBS cannot change the square footage for any existing assignment governed by an Occupancy Agreement without amending that agreement. Even where no OA is in place, PBS is not free to change the square footage figure for an existing assignment, without appropriate notice to the affected agency according the agency time to budget. PBS policy, for all changes in Rent (increases or decreases) as a consequence of space re-measurement, conversion to the ANSI/BOMA standard, or cleaning up our data, is:

1. The square footage figures in STAR should be changed as soon as the correct square footage is known and the billing impacts/adjustments are calculated. Customer agencies should then be provided with the opportunity to challenge the new billing data. The square footage and rental information in the client's OA should be updated and transmitted to the customer agency. Where no OA currently exists, regions can prepare an OA, or prepare a letter notifying the customer agency of the change. An agency cannot avoid the onset of the changes by not signing the OA, but PBS needs to provide the agency with an opportunity to identify any errors. (For instance, our records may indicate occupancy on floors two, three and seven, whereas the agency may point out that they vacated the seventh floor three months ago.)

The new square footage figures should be entered into STAR, so that RentEst (formerly BUDEST) will calculate the correct Rent for the first budget year in which the change in Rent can take effect. The RentEst baseline is typically taken on or about February 15, for the budget year that commences 18 months later. Where square footage changes occur after that date, regions should a) notify customers locally, and b) report them to the Revenue Division for transmittal to customer headquarters (for customer inclusion on OMB Exhibit 54). Notification of square footage changes must be received by the PBS Revenue Division not later than August 15 in order for them to be included in agency budgets for the fiscal year commencing 14 months later.

2. If the total rentable or usable square footage for a building does not change, or if the change is less than 2 percent, then the appraised rental rate for the building, expressed in rentable terms, is to be left untouched. If the total rentable or usable square footage in a building changes by more than 2 percent, then PBS should consult the appraisal upon which the rental rate was based, or the appraiser who prepared it, to see if the rental rate needs to be adjusted. This is necessary because, in some cases, appraisers modified their rentable square foot rate determinations, based upon the differential in loss factor between R/Us in GSA buildings and R/Us typical in the marketplace. Contact the appraiser if the appraisal document does not clearly indicate whether or not an adjustment was made on the basis of the rentable/usable ratio employed. The appraiser may determine that the 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 in STAR. In some cases, the rate change or adjustment merely offsets the effect of a change in rentable square footage for the tenants. In these cases, since the overall Rent does not change, no single line billing adjustment is necessary. In the case, however, in which the customer agency's Rent does change, a single line billing adjustment is necessary to intercept the change until the budget year for which the change can be effective.

3. Changes in Rent resulting from remeasurement and square footage corrections, as well as changes in Rent resulting from R/U factor changes should be held in abeyance until the agency has sufficient time to budget. This is done through the use of a single line billing adjustment (described in paragraph 6 below) that neutralizes the effect of the change. The single line billing adjustment should be programmed to expire at the beginning of the fiscal year in which the change in Rent can take effect.

4. Remeasurement initiatives, or actual changes in the allocation of space between usable and common areas, may occasion R/U changes for individual floors or for the entire building. In those instances in which an R/U factor changes, but the tenant's usable area (and joint use area) is unchanged, the tenant's Rent should remain unaffected. The Rent should not change for such a tenant until the current OA expires, or, if there is no OA in place for the assignment, until the shell rate expires. This rule overrides the sufficient-time-to-budget policy of holding rent changes in abeyance only until the budget year for which GSA can give timely notice.

This rule intercepts, for the duration of the OA or until an OA is put into place (i.e., when the shell rate expires) changes to Rent which are entirely unrelated to the tenant's or to joint use space. This follows a comparable principle observed in our lease contracts: once tenant and landlord agree on the measurement of the demised area and the consequent rent, the rent remains unchanged for the lease term (excepting, of course, as specified in the contract.) Lessors to GSA are not able to come to us for rent increases whenever their building R/U factors change; lessors have to wait until a lease expires before attempting to collect, in the follow-on lease rate, for any changes in R/U. PBS policy aligns owned space with this principle. Thus, in the case of remeasurement or R/U factor changes which do not alter tenant's usable area, or joint use area, the single line billing adjustment must be set to expire at the time the OA or the CBR shell rate expires.

5. Correction of billing errors and omissions can be immediate; that is, they need not wait until the next budget year for which GSA can provide notice. For instance, in the case of space assignments for which there was agreement (in an OA or otherwise) between PBS and the tenant agency as to the square footage, but PBS failed to enter the correct square footage, there is no need to wait until the next RentEst budget year to collect the correct rent. Billing can start immediately for blocks of space that have been occupied by an agency, but which have not been assigned to the agency by omission. Corrections should take effect retroactive to the date of the error, but no earlier than October 1 of the previous fiscal year.

6. The single line billing adjustment should be:

- Entered into STAR's "Misc. Billing/Adjustments" screen, coded as an adjustment for Incorrect Square Footage.
- The adjustment effective date should be when the square footage change will start to affect the agency bill.
- The end date for the adjustment should either be the beginning of the fiscal year for which the customer agency will have had time to budget for any change or, in the event of a change which does not alter the tenant's usable area or the joint use area, the expiration date of the OA or CBR shell rate.

When the one-time adjustment is used, then:

- Only one adjustment entry is necessary based on the difference between the total old and new billings (all amounts should be checked for accuracy prior to the calculation to ensure that the adjustment accounts for the effects of all changes to Rent occasioned by the remeasurement, including operating costs, joint use and security charges.)
- The rates will not have to be re-blended if there is a future expansion to an assignment.
- While operating expense escalations in the intervening year or increases in rates due to CBR expirations could apply to the changed square footage, the resulting difference in Rent will not be large enough to warrant changing the billing adjustment (unless challenged by the tenant).
- No future changes to the adjustment entry will be necessary, unless space is canceled. In the event of agency relinquishment of space, if the value of the space being canceled exceeds the value of the adjustment, then the adjustment should be canceled.
- Customer agencies will receive one standing adjustment per assignment for their records, instead of multiple rate changes, which could change again if the assignment expands.
- An itemized entry for the adjustment will appear on each client's bill.

The sufficient-time-to-budget policy governs measurement efforts that both increase and decrease Rent, irrespective of whether PBS or the customer agency initiates the re-measurement effort. Just as PBS must allow the customer agency sufficient time to include the increase in their budget cycle (six-18 months depending on the time of notification and what stage the budget cycle is in) so too, decreases in Rent must also wait out the next full budget year so that PBS can plan for the reduced income. This follows a principle of parity, for it would not be equitable for PBS immediately to credit Rent reductions for customer agencies due to re-measurement, but have to wait a budget cycle to increase Rent. This principle applies whether PBS re-measures the space, or whether the customer agency takes the initiative to have its space re-measured.

Chapter 3: Pricing Conventions and Determining Rent

This chapter describes the conventions that give overall shape and definition to PBS's pricing approach. The methodology used in determining customer agencies' Rent is also described.

Building Classes

Pricing has four space classes: general use, warehouse, parking, and unique. For general, warehouse, and unique, the space classification works at the building level, and is determined by predominant use. The space class parking can be used for separate parking structures and for surface parking. It can also be used to identify the parking area within a building that is designated as one of the three other classes. A building's predominant use determines its class; if the space is 70 percent or more of a particular class, the building will be designated as that class. The four space classes are not to be confused with the space classification system used previously to distinguish between, and bill on the basis of, different types of tenant space build-out.

General Use

Most space falls into this class. It includes general office space and special-purpose spaces such as courtrooms, laboratories and computer centers. It replaces the office space (Office), special spaces (SP-1A, SP-1B, SP-2, SP-3A, SP-3B, SP-4, SP-5A, SP-5B, SP-5C, SP-6), and office storage space (ST-1) categories that existed under the previous pricing system.

The impact on the Rent for federally owned and leased space is as follows:

- Federally owned Space - The shell rate for a federally owned building with a general use class will be appraised based upon an office use.
- Leased Space - The shell rate is based on actual lease contract costs and is a pass-through.

Warehouse

This building class is to be used when the predominant use of the space is 70 percent or more warehouse space. The impact on the Rent for federally owned and leased space is as follows:

- Federally owned Space - The shell rate for a federally owned building with a warehouse class will be appraised based on a warehouse use.
- Leased Space - The shell rate is based on actual costs and is a pass through.

In both cases the tenant improvement (TI) allowance is reduced to 20 percent of the general allowance.

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 tenant improvement allowance which covered the cost to construct the offices. (Conventional office shell elements are not present in a warehouse building, so the tenant allowance in the case of a warehouse must cover all of the build-out costs for the office.)

Similarly, there is no "storage" rental rate applied to warehouse space in general use buildings. Agencies enjoy lower costs for storage space in a general use building because the storage space is less expensive to build out, and therefore the tenant improvement payment is lower.

Parking

This building class is to be used for separate parking structures and parking at buildings with a general use or warehouse class. Parking is charged based on a per-space rate as opposed to a per-square-foot rate as was used in the previous pricing methodology. PBS distinguishes between structured and surface parking types, and security charges are not applied to parking rent. Additionally a separate rate can be set for reserved and unreserved parking spaces for both structured and surface parking rates. (STAR requires a separate CBR for each rate.)

The stipulations of the parking agreements for buildings, both owned and leased, that are in PBS's inventory should 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 should reflect these adjustments. In another market, 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 to PBS inventory buildings.

Unique

Unique space is distinguished from the other three building-level classes to allow for special pricing arrangements when none of the other classes is appropriate. Some examples of unique space are border stations or bird sanctuaries.

Pricing of Rent

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

Federally Owned Space

In federally owned space, Rent is appraisal-based, with other applicable charges added.

Leased Space

In leased space, Rent is a pass-through of the underlying PBS contract rent, plus: 1) any conventional operating costs not performed through the lease, 2) the PBS lease fee, and 3) security charges. PBS operating policy is to secure fully-serviced leases (although exceptions to the policy are allowed). Both the operating costs and the real estate taxes that PBS pays to the lessor are passed through to the customer.

The Rent is comprised of various components based on the type of space - federally owned or leased. The components and their applicability to federally owned or leased space is shown in the table below.

Component	Federally Owned Space	Leased Space
Shell Rent	X	X
Tenant Improvement Cost (General & Customization)	X	X
Operating Costs	X	X
Real Estate Taxes	(in shell)	X
PBS-Installed Leasehold Improvements		X
Security Charges	X	X
Extra Services	X	X
Parking	X	X
Rent Charges for Other Space	X	X
PBS Fee	(in shell)	X
Joint Use	X	X

Some of the components that apply to both federally-owned and leased assets vary in their application. Each component is discussed below as well as the variations.

3.2.1 Shell Rent

The definition of building shell, which drives the shell rental rate for both federally owned and leased space, is provided in Chapter 2, Key Pricing Elements. The application and variations of the building shell definition to federally owned and leased space are described below.

Federally Owned Space

The shell rent in owned space is based upon an appraisal. Shell rents are established for five-year periods and remain level during the entire five-year period. Generally, a new appraisal is provided every five years in federally owned buildings. For new assignments commencing in a year other than the year for which the appraisal was commissioned there is, beginning with new appraisals done for the FY2002 budget year, a table of values in the appraisal to assist realty practitioners in establishing an initial shell rental rate.

Shell rents in owned space cannot be pre-set for periods in excess of five years. OAs can be written for longer terms and in many cases will exceed five-year terms. A standard clause in the OA states the shell rents will be re-calibrated to market every five years. When new market-based shell rents are issued for continuing occupancies in federally-owned space, PBS policy is to apply the shell rate to all occupancies in the same building that have CBR's expiring in that year. Market-based rents for continuing occupancies in owned space consist either of shell rents plus the continuing amortization of tenant improvements, or an "as is" rate. PBS does not distinguish between occupancies for building-based amenities (e.g., floor elevations, street frontage, window views, etc.). PBS assigns customer agencies their specific locations within a multi-tenanted building; customer 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 customer agency space and replaces broken ceiling tiles without additional charge to the customer agency. PBS will also, on an as-needed basis, paint and re-carpet building and floor common areas, but not customer agency areas.

Leased Space

The shell rental rate will be identified within the lease in accordance with the building shell definition. The definition of building shell will be included in all leases. PBS policy is to include cyclic carpet and paint in the lease contract with the expense borne by the lessor. The lessor's shell rent price includes the cost of this responsibility.

Leases that predate New Pricing (FY 98 and before) are not structured into shell and tenant improvement component costs. In most cases, there is no reason to intercept the "lease recovery rate" in STAR in order to separate it into shell and TI components. Only in the case of a forced move is it generally necessary to partition an existing lease Rent into shell and TIs so that the forcing agency can pay PBS for the balance on the unamortized TI principal.

Rent Concessions

Any Rent concession given at the start of a lease term, such as free rent, is also passed through to the customer agency. An OA standard clause addresses how, in the event of such concessions, the customer agency is responsible for any unearned balance on the concession value in the event the agency exercises its right to return space on four months written notice. For example, if a lessor provides six months of free rent on an eight-year firm term lease, and the agency leaves at the end of year five, then out of 90 monthly payments over the lease term (8 yrs x 12 months = 96 pmts minus six months free = 90) the agency made only 54 payments (5 x 12 = 60, but the first 6 months were free, so 60 - 6 = 54.) This means that the agency has truly earned only 60 percent of the initial free rent concession (54/90 = 60 percent) but has already received the entire benefit of the concession. Sixty percent of the initial six month free rent concession equals 3.6 months (6 x .6 = 3.6) and therefore, the customer agency must pay PBS back 2.4 months worth of rent: the value of the concession unearned. This payment must be made at the time the agency ceases occupancy. The billing vehicle is STAR, and the payment can be taken over a number of months, rather than in a lump sum adjustment.

Structure of Rent

In most cases, PBS will seek to mirror in agency Rents the lease contract structure. PBS should seek to avoid contract rent structures that result in widely distanced rate steps (e.g. five year level rent at a very high rate with the next five years at a very low rate).

Additionally at no time during the term should the rent be "non-economic" (i.e., above market), even if the lessor proposes as a counterweight a period in which the rent is well below market. However, if despite all efforts by PBS to prevent a lessor from structuring the offer in steep steps, PBS must intercept the rate and not pass it directly onto the customer agency. In this case, the Rent should be leveled out and documented in the OA. To determine the equivalent of the stepped rent, use the OMB discount rate and determine the constant payment which is the present value equivalent of the stepped rent cash flow.

Adjustments for Failure to Perform

In the course of enforcing performance requirements set out in a lease contract, PBS may make a rental reduction or withhold rent from a lessor. These deductions are not automatically passed along to the customer agencies, since they are usually needed to cure the lessor's non-performance. If the lessor's performance default results in PBS assuming some continuing responsibility for the leased space (e.g., PBS takes over the cleaning of the customer agency space) then PBS will adjust (up or down) the customer agency's Rent bill to reflect the cost of the service performed.

3.2.2 Tenant Improvement (TI) Costs

Federally Owned Space

PBS is obligated to provide the full complement of the TI allowance (both the general and customization) in accordance with the customer agency's assigned tier, upon initial occupancy. Customer agency-requested space changes, replacements, or enhancements after initial occupancy are the funding responsibility of the customer agency. Upon the expiration of an OA term, a customer agency may request that PBS fund new TIs; however, this is not an entitlement. PBS may be able to provide additional TI funding upon renewal of an OA. If the customer 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, is the funding responsibility of the customer agency. If asbestos is present in shell elements, but is non-friable and contained/sealed with a management plan in place, and if the asbestos is disturbed by a tenant-driven alteration, the cost to abate the asbestos is the responsibility of the customer agency.

In federally owned space, the convention is to amortize whatever portion the customer agency used of its TI allowance for a 10-year term. If particular characteristics of an assignment warrant, the amortization period can be longer or shorter. The TI amortization period should not exceed the term of the OA or the useful life of the TIs.

Upon expiration of the TI term, the periodic payment amortizing the tenant improvements will end, and the Rent will be reduced to an "as is" appraised rate. Under PBS's previous pricing methodology, PBS recouped more than the initial cost of the TIs through rent multipliers tied to the 16 space classifications. These multipliers were in place for the duration of the assignment. The income from the application of the rent multipliers compensated PBS for the initial cost of the TIs as well as for their periodic refreshing and replacement. This included not only cyclic painting and carpeting, but also hardware and equipment replacement, wall repair, etc.

With the amortization of TI costs over a specified period of time, PBS now recovers the initial capital invested in those improvements plus interest, but nothing more. Customer agency Rent payments no longer compensate PBS for periodic refreshing or replacements of TIs. It is the customer agency's obligation to pay for any additional or new TIs; PBS may be able to pay for new TIs if funding is available, and with a new additional Rent charge which amortizes the new capital PBS expended on the TIs.

Special equipment (e.g., private elevators, supplemental cooling units, uninterruptible power sources, etc.) provided above the building shell at the customer agency's request and for customer agency use is chargeable against the TI allowance. Concurrently, PBS may request reimbursement for additional utility consumption and operation and maintenance for the special equipment. (See Operating Costs.) An additional charge will be added to the operating expense base, at the CBR level, if PBS is to be responsible for the maintenance of this special equipment. The eventual replacement or upgrading of the equipment is at the customer agency's expense; it may also be funded by PBS, subject to availability of funds, as a TI and amortized into the customer agency's Rent.

Assignments in federally owned space which pre-dated New Pricing, but which at the time of conversion (October 1999) were 10 years or younger, contain a TI component of Rent. For specifics on the conversion methodology, please see the web site at <http://www.gsa.gov/pbs/pt/opm/>.

Leased Space

In leased space, the amortization term for TIs will be equal to or less than the firm term of the leases. PBS needs to ensure that lessors structure their price proposals to show the full tenant allowance that PBS has called for (with the amortization rate for the tenant work).

Leases which pre-date New Pricing are not readily separable into shell and TIs. These values have to be derived when necessary in cases of a forced move or the exercise of a customer agency's right to relinquish space, to determine if a lump sum payment is due for any unamortized TI's.

3.2.3 Operating Costs

Federally Owned Space

Operating expenses in federally owned space are based upon appraisals rather than actual PBS costs. The use of appraisal-based operating costs provides the customer agency with industry benchmarked operating costs. This practice insulates customer agencies from the risks PBS undertakes in operating buildings.

The appraisal-generated operating cost base for a building classified as general use, covers the provision of building services and utilities typical for the operation of an office building for a 5 day workweek. Many of the tenant spaces in a general use building, however, may have operating and maintenance requirements that are different than conventional office space. This may be due either to the particular space use or to the presence of special tenant equipment or fixtures. Some of the many examples are: mopping instead of vacuuming in pantry areas, stocking paper products in private bathrooms, HEPA cleaning and air filter changes for firing ranges, high cleaning in courtrooms, periodic plumbing service calls for pantries and private bathrooms, and equipment maintenance costs for private elevators or for supplemental air conditioning equipment for conference spaces. PBS policy is to request additional reimbursement for the cost to service these spaces only when the overall cost to maintain the tenant's space exceeds the operating cost component of the Rent that PBS is already billing.

In order to determine whether or not additional charges to the tenant are warranted, 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 HEPA cleaning is more costly). Also, in the case of space entailing tenant floor cut areas, PBS may be incurring additional operating expense (e.g., the cost to maintain equipment for a private elevator) but also receiving Rent for the area on each floor penetrated by the elevator shaft. These offsetting effects must be considered before PBS requires that the tenant provide additional operating cost reimbursement. In no event, however, will PBS rebate Rent or process a credit to a tenant agency when the cost of operating expenses, accounting for all differences, works out to be less than the standard Rent charge for operating costs.

Operating expenses for Federally owned space have been escalated annually by the Consumer Price Index (CPI), through FY 2002. However, beginning with FY 2003, operating expenses in CBR's will be escalated by OMB's inflation factor. The operating expense base for each CBR will be readjusted on the anniversary date of the CBR.

Costs for enhanced or "premium" operating expenses such as overtime utilities and daytime cleaning or special cleaning services currently are collected via RWA due to limitations within PBS accounting and billing systems. PBS is working on system enhancements that will accommodate the collection of all operating expenses through STAR. Regardless of the mechanism of payment, enhanced services are a reimbursable expense.

Operating expenses for federally owned space have been escalated annually by the Consumer Price Index (CPI). However, beginning with FY 2003, operating expenses in CBR's will be escalated by OMB's inflation factor. The operating expense base for each CBR is adjusted annually on the anniversary date of the CBR.

Leased Space

The operating costs that PBS pays to the lessor are passed through to the customer agency. Operating costs in leases are usually tied to the CPI. When PBS adjusts payment to the lessor, the Rent to the customer agency is also adjusted.

Costs for enhanced operating expenses and special equipment operation and maintenance should be included in the lease contract and passed onto the customer agency. Although the cost for the premium service can be included in the lease, the customer agency must pay GSA as a reimbursable payment, either with an RWA or through STAR when system enhancements enable PBS to credit the reimbursable income to the building in which the expense is incurred.

3.2.4 Real Estate Taxes

Federally Owned Space

The shell rent component includes an amount for real estate taxes; therefore, there is not a separate Rent component for real estate taxes in federally owned space.

Leased Space

Real estate taxes are passed on directly to the customer agency in the Rent. The customer 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.

Real estate tax adjustments are ordinarily done once a year on the anniversary date of the lease (which should coincide with the CBR). PBS computes the appropriate tax escalation payment to the lessor and a commensurate adjustment is made to the customer agency's Rent. This adjustment takes the form of a one-time catch up payment and an increased accrual for the higher tax bill going forward.

At the end of the lease term, a final reconciliation will be necessary to determine if PBS owes the customer agency for any over-accrual or if the customer agency owes PBS for any under-accrual.

If real estate taxes decrease from one year to the next, the reduction is passed through to the customer agency.

3.2.5 GSA-Installed (Leasehold) Improvements

Federally Owned Space

This component is not applicable to federally owned space.

Leased Space

For any building improvements in leased space which PBS funded (using BA 54 funds), PBS collects an annual rental charge which, like PBS-funded tenant improvements in owned space, amortizes the initial capital cost of the leasehold improvements over the lease term. Where precise cost figures for the initial PBS capital expense are unavailable, the annual charge can be derived from the amount that PBS is depreciating on its books, as follows:

- Multiply the annual depreciation amount by the total years in the initial lease firm term
- Calculate the annual payment to amortize this amount over the initial lease firm term at the TI amortization rate set by the Office of Portfolio Management.

3.2.6 Security Charges

Security charges are treated the same in federally owned and leased space. There are two security charges: Basic and Building-Specific.

Basic Security Charge

A basic security charge is assessed in all PBS-controlled properties, both leased and Government-owned, where the Federal Protective Service (FPS) provides security services. The annual rate is developed by FPS and approved by the Office of Management and Budget (OMB) on a per-square-foot basis. The charge includes the following services:

- General law enforcement on PBS-controlled property including responding to service and emergency calls, conducting preliminary investigations of incidents and capturing and detaining suspects.
- Formulating facility-specific and regional threat assessments including the development of action plans to reduce the identified vulnerabilities.
- Presenting workplace violence and crime prevention programs to customers.
- Advising Building Security Committees (BSC) on security recommendations for Federal facilities.

- Intelligence networking with Federal, state and local law enforcement agencies and participating on FBI Joint Terrorism Task Forces.
- Investigating and assisting with the prosecution of crimes committed on PBS-controlled property.
- Assisting and coordinating the development of Occupancy Emergency Plans.
- Providing federal law enforcement protection from disruptions by major demonstrations, threats or natural disasters.
- Monitoring and remote troubleshooting of perimeter building alarms 24/7 by state-of-the-art megacenters.
- Pro-rated share of protection administrative costs.

Building-Specific Security Charge

The building-specific security charge is comprised of two components: operating expenses and amortized capital costs.

Building specific charges, whether operating expenses or capital costs, are distributed over all federal users by building or facility in direct proportion to each customer agency's percentage of federal occupancy. (Federal occupancy is used as the basis for this distribution of costs because some buildings are only partially leased to the government.) As with Joint Use charges, the distribution of building-specific security charges among customer agencies is not re-adjusted for vacancy.

Each building and/or facility has a BSC and each customer agency has representation on the committee and a single vote. The BSC consults with and seeks recommendations from FPS as to new or revised countermeasures. FPS makes the final determination as to which countermeasures are implemented. A customer agency cannot avoid any building-specific charge by casting a "no" vote for the BSC countermeasure.

Building-specific charges can be appealed. FPS is responsible for maintaining records of both the operating and capital expenditures made by building, including the amortization terms and amounts of capital expenditures.

Building-Specific Operating Expenses

Building specific operating expenses Include:

- Building-wide contract guards, both fixed and roving, assigned to a specific building.
- Purchase, installation and maintenance of security devices such as cameras, alarms, motion detectors, and other physical security features.
- Pro-rated share of protection administrative costs.

The building specific operating charge is set annually by FPS at the end of the fourth quarter for the next fiscal year. In order to accommodate any unforeseen changes in the charge, a mid-fiscal year adjustment is made at the end of the second quarter. For unusually large changes of at least 25 percent over or under the current rate, an additional adjustment may be made in the third or fourth quarter. However, this is an exception and must be communicated to the affected agencies before it is entered into the STAR system. If a new level of service is implemented, such as the institution of new guard posts or additional hours, the charge can be updated immediately.

Building Specific Amortized Capital Costs

Examples of amortized capital costs include:

- Magnetometers, x-ray machines and ion scanning/trace detection devices.
- Bollards, planters and other perimeter barriers that are principally for security purposes.
- Surveillance cameras and alarms in building and floor common areas.
- Extensive security measures, such as blast mitigation, window glazing, and progressive collapse.

The capitalization threshold for building specific equipment adheres to PBS's accounting policy regarding the capitalization threshold for operating equipment, which currently is \$10,000.

If PBS's capitalization threshold for these items changes, the threshold for building specific equipment will be adjusted accordingly. Security improvements which are less than the threshold are billed as building specific operating expenses with the FPS administrative rate applied. Security improvements over the \$10,000 threshold are treated as follows:

- 1) For furniture, fixtures and equipment (e.g. magnetometers, x-ray machines, closed circuit cameras and monitors, etc.), the amortization period is 5 years;
- 2) For real property security fixtures added to an existing building, the amortization period is 20 years; and
- 3) For real property security fixtures erected when the building is first constructed, the amortization period is 30 years;

The building specific amortized capital charge is set annually by FPS at the beginning of the fiscal year. When the amortization period for current security equipment ends, new/replacement equipment amortization costs will begin. The amortized capital security charge will therefore be a varying but permanent part of customer agencies' Rent.

The amortization rate for building-specific capital expenditures is the 10-year Federal Financing Bank rate, plus 12.5 basis points, which is the same rate used for amortizing tenant improvements.

While the initial costs for building specific capital items installed prior to FY98 (in accordance with the Department of Justice Vulnerability Assessment Study) were not passed on to customer agencies, capital items installed after FY98 are charged to customer agencies through Rent.

3.2.7 Extra Services

Extra services apply equally to federally owned and leased space. This component is used for charges for services that are over and above standard operating expenses. This line item will have greater use once PBS is able to bill for premium services through STAR rather than by RWA.

3.2.8 Parking

Parking in both federally owned and leased space is charged on a per-space basis. See discussion earlier in this chapter on building classes and parking.

Federally Owned Space

Parking in federally owned space is based on appraisal.

Leased Space

For leases which predate New Pricing, the parking rate is usually included as part of the shell rate. It is not necessary to separate parking from the shell for these leases. New lease actions, at the request of the customer agency, may have parking priced separately. In either case the number of parking spaces should appear on the Rent bill.

3.2.9 Rent Charges for Other Space

This charge is treated the same for both federally-owned and leased space. This billing category is used to charge for space types that have no square footage associated with them. Examples include ware yards, boatdocks, antenna locations and helipads.

3.2.10 PBS Fee

The PBS fee is applied as a separate charge in lease space only.

Federally Owned Space

In federally owned space PBS provides all the services equivalent to those covered by the fee in leased space, but with no additional charge for these services beyond the shell rate. PBS accepts the appraised shell rate as compensation for the services that PBS undertakes in owned space, which are analogous to the services that PBS provides in leased space for the separate fee.

Lease Space

In the case of leased space, PBS passes through to the customer agency the actual lease contract cost and the cost of any additional conventional building operating services that PBS provides which are outside of the lease, plus a fee.

The PBS fee for leased space is a flat 8 percent. The fee applies to all new lease actions, succeeding leases, superseding leases, renewals, extensions and expansions. The same fee structure is applicable to and appropriate for all actions, including the exercise of renewal options, because PBS cannot tell before the fact whether a fixed price renewal option, even if already competed, will be advantageous to the government when the renewal option matures. PBS may need to re-compete or negotiate in earnest with the incumbent lessor to get a better offer that is in line with the current market. Commercial-sector brokers receive fees for negotiating renewal options; PBS charges a fee as well.

The 8 percent fee is not to be discounted (except as described below) or inflated. It is fixed at 8 percent, irrespective of the services that a customer agency may wish to self-perform. Eliminating discounts for services that a customer elects to perform aligns PBS pricing policy with PBS's role as a full-service real estate provider; the flat fee structure provides incentives to customer agencies to use the full complement of services that PBS offers.

PBS has much at stake in the space acquisition and lease management areas since PBS is the actual signatory on the lease and has the true contract risk. PBS, as the risk holder, has a self-interest in ensuring that the acquisition process is executed in a timely manner and that the lease administration and enforcement functions are properly discharged. If PBS allows a customer agency to contract for its own space planning, PBS is not in control of the process. In the event the customer agency is delayed in awarding the space planning contract and the project is delayed, PBS could be at risk for a hold-over occupancy (in the case of an expiring lease), for rent payments for vacant space at a new leased location or for the lost potential income in federally-owned space. Allowing other customer agencies, whose primary mission is not real estate, to perform real estate services may be appropriate from time to time, even though there are risks to PBS. However PBS no longer encourages customer agencies to take on this work by discounting the fee.

There are two exceptions to the fixed 8 percent fee: USPS space where USPS is the property owner, and non-cancelable space. These exceptions are described in detail at the end of the fee section.

The flat 8 percent enables PBS to honor its initial commitment to our customer agencies and to OMB not to charge a leasing fee that exceeds 8 percent. An explanation of the "History of the Fee and Previous Fee Rationale" is provided below for informational purposes.

The flat 8 percent fee is calculated and billed each year based on the value of the lease contract for that year as well as the standard operating services that PBS provides for non-fully serviced leases. The 8 percent fee is not calculated on real estate tax escalations or enhanced services (even if the enhanced services are included in the contract rent). Each local market will determine what services are standard and what services are above standard. For instance, whether daytime cleaning is considered to be a standard or enhanced service could differ depending on the local market in which the asset is located.

Although it is comprised of three parts (contract risk, real estate brokerage services, and property management and lease administration services) it is not divisible. The fee is monolithic. It maybe useful to explain to customer agencies the elements that comprise the fee, but such explanations do not open the door to fee negotiations. The fee is nonnegotiable. Agencies do not have the right to choose among the elements within the fee for purposes of reaching a discounted fee. Agencies can elect, with PBS approval, to perform certain tasks covered by the fee, but PBS will not discount the fee. As the discussion below on the "Components of the 8 percent Fee and Rationale" demonstrates, when the fee is taken as a whole, the services provided and contract risks accepted by PBS are an aggregate bargain. Customer agencies do have a choice, but choice does not exist, in terms of pricing, at the level of selecting discounts to the fee for services that the customer agency elects to self-perform. Customers can elect to have PBS acquire their leased space, in which case the 8 percent fee applies, or, if a prime motivation is to avoid the 8 percent fee, then they can elect to exercise the GSA's Administrators categorical delegation of leasing authority, and procure leased space on their own.

History of Fee and Previous Fee Rationale

The initial New Pricing concept was that customer agencies would be afforded choice, from a menu of services, and the resultant fee would be the sum of all of the "a la carte" services the customer agency selected, with the total fee capped at 8 percent. Client choice was to be available for any PBS service. The contract risk component could not be waived, as the risks which PBS absorbs on behalf of customer agencies are inherently PBS's and cannot easily be transferred to the customer agency.

The brokerage service component was priced using a sliding PARS fee, which was steeply regressive, starting at 3.5 percent and dropping by steps, to one quarter of a percent of the lease contract value over \$50 million. The property management component was initially calibrated to differing lease conditions (e.g., different fees for different types of leased space, different tenants and discounts for delegations). It was also expressed in terms of an annual price per square foot, whereas both the contract risk and PARS components were expressed as a percentage of the contract rent. This made comparison of the total fee to the 8 percent cap a tedious multi-step exercise.

When PBS introduced New Pricing in 1997, the idea of client choice, as from a menu of Services, was not implemented. However, the fee was structured to allow for negotiated discounts and differential property management rates for various lease conditions and clients (i.e., delegated vs. GSA-managed, lessor vs. GSA-serviced, general purpose vs. warehouse space, courts-occupied space vs. other user-occupied, etc.). Additionally, regional practice in applying the fees varied widely. Some regions locked in the fee at 8 percent of the lease contract value, some routinely escalated the fee, others discounted steeply. Regions also differed widely in their interpretation as to what services were included in the fee and what services required reimbursement outside of the fee. The first Desk Guide and New Pricing brochures did not adequately define the services to be provided for the fee, thus adding to the general confusion for PBS practitioners and customer agencies.

Components of the 8 percent Flat Fee and Rationale

The fee is comprised of three components – contract risk, brokerage services, and property management. Each component is discussed in detail below as well as its rationale.

Contract Risk

As the federal agency that has a legal relationship with lessors and private service providers, GSA assumes several types of contract risk, such as: 1) vacancy risk; 2) contract formation and disputes; and 3) limited tort liability. As is stated in Chapter 6 of this guide, customer agencies can, with four months' written notice, return marketable space to PBS. Also, GSA guarantees to find space for customer agencies regardless of the location or occasion (including disasters and emergencies). In regard to contract disputes, as the party in privity-of-contract with private lessors and service providers, GSA assumes certain contractual risks, including being responsible for defending contract disputes (such as damage to the lessor's property) with lessors and contractors. Due to this relationship with lessors and service providers, GSA also on occasion may 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 agency) other than GSA is at fault, GSA does not "indemnify" that agency against tort risks, either the cost of defending or any eventual liability. In fact, GSA is prohibited by law from doing so. GSA does not assume risks of ownership for leased properties.

The Central Office of Portfolio Management performed an analysis³ on the largest element within the contract risk component of the fee: the vacancy cost of leased space. This analysis revealed while more than 7 percent of the leased inventory is non-revenue producing, the true or hard vacancy rate runs at 4 percent or slightly higher. Further, the analysis suggests that at any given time, PBS is creating vacancy pockets near the end of leases. This happens as a matter of course when PBS leases or constructs new space before the expiration of an existing lease, in order to provide a time cushion so as to avoid a holdover tenancy. Given that the leased inventory is dynamic – and customer agencies do exercise their cancellation rights – and given that these lease expiration vacancy pockets are hard to avoid entirely,

³The analysis was prepared by the Bankers Group. It is not replicated here, but in essence, the Bankers began with all non-revenue producing leased space and stripped away all extraneous factors (PBS-occupied, "phantom" space, swing space for modernizations, etc.) to distill a "true" vacancy rate. This rate is expressed as a percent of the total leased inventory square footage. The Bankers did not use actual rental costs for space which is vacant, but rather worked on the assumption that if 4% of the square footage is truly vacant, this equates roughly to 4% of the rental of space costs.

it is highly doubtful that PBS will ever be able to reduce the vacancy rate below 3 percent or 3.5 percent.

Based on the above analysis, in order to underwrite fully the vacancy risk to PBS in the fee, a charge of at least 3.5 percent to 4 percent of the contract cost is necessary. Failure to charge for this ongoing vacancy results in PBS losing money on the leased inventory.

The intent and spirit of the pricing policy is neither to lose nor to make money on the leased inventory⁴. It is critical that the vacancy risk be properly underwritten through a surcharge or fee on top of lease contract rates. A 4 percent surcharge enables PBS essentially to "break even" on leased space; but it also provides PBS a strong incentive to treat vacancy aggressively (i.e., seek buy-outs, assign, sub-lease, discount for backfill tenants, etc.).

The other sub-elements within the contract risk component (contract formation and disputes, limited tort claim risk, and the guarantee that GSA will find space for customer agencies regardless of the location or occasion) are more difficult to quantify. No study has yet been undertaken to quantify this cost. Nonetheless, with the vacancy risk alone claiming theoretically half of the entire 8 percent fee, these additional risks must be taken by PBS within that fee limit. If it becomes evident that the 8 percent fee is either excessive or inadequate, GSA, in accordance with its statutory and regulatory authorities, will adjust the fee, ensuring that it approximates commercial charges for comparable space and services. This will be done on a nationwide basis and not at the regions' discretion.

Brokerage Services & Property Management

Several studies have been undertaken in order to evaluate the adequacy of the brokerage and property management fee components to cover the costs incurred for acquiring and managing leased space. A national analysis, using FY 99 data, revealed that total direct and indirect expenses of leasing (excluding security and the cost of the leases themselves) represent 8.1 percent of the national rent roll. This analysis understates the true cost of the lease inventory, as it makes no allowance for PBS-occupied real estate. If the opportunity cost of the portion of PBS-occupied space attributable to serving the leased inventory were taken into consideration, the percentage would be higher.

Although the General and Administrative (G&A) formula which distributes costs between the federally-owned and leased inventory is inexact, it provides a rough order of magnitude for the work effort required to support the approximately 150 million rentable square feet of leased space in the PBS inventory. In addition to the labor of realty specialists and property management specialists, the work effort on the leased inventory includes:

- Space assignment data management (including STAR).
- Billing and budget formulation.
- Construction management.
- Prospectus development and advocacy.
- Operating cost and tax escalation computations and accruals.

Given that vacancy in leased space runs at 4 percent of the leased inventory, and given that the full cost of PBS services to leased space runs at 8.1 percent of the value of the rental of space account, then in total, leased space costs PBS on the order of 12 percent above the 'pass-through' cost to customer agencies of the underlying lease contracts. This means that at 8 percent, the PBS fee in leased space is a below-cost bargain to our customers. It also means that PBS must consider the following cost containment strategies with respect to the brokerage and property management services provided in leased space:

⁴The intention was that the PBS fee would at least cover administrative expenses if not make a modest "profit" for the Federal Building Fund in cases where the PARS staff was efficient and managed to conduct the brokerage work for less than the fee.

Brokerage Services – PBS must seek to control the expenses that occur outside of the lease contract itself. This means PBS should seek, where possible, to purchase space planning services through the lease, or defray the cost of brokerage by securing rebates from brokers under contract to PBS who collect cooperating broker commissions from lessors. In the event PBS is able to recover the cost of tenant representation services by collecting a rebate from a PBS contract broker who received a cooperating broker commission from a lessor, the PBS lease fee to the customer agency remains at 8 percent. The fee is not discounted. By the same token, the cost of using a commercial broker is not passed onto the customer agency – the flat 8 percent fee stands.

Property Management - Resources expended in lease space must be conserved and brought into alignment with the limited fee income (flat 8 percent) that PBS secures for leased space. PBS should endeavor to provide only true "value-added" work beyond which the lessor provides in return for the rental consideration.

Fee Rationale

The forgoing discussion indicates that, when examined against the backdrop of the cost of vacancy and the cost to PBS for lease acquisition and management, the 8 percent fee is barely sufficient to cover the fully loaded costs to PBS for the leased inventory. The 8 percent fee is a below-cost bargain for our clients, further illustrating why the fee is fixed at 8 percent and is non-negotiable. This discussion of the anatomy of the fee is provided to help GSA personnel and customer agencies understand why the fee is 8 percent; it is not provided to enable fee itemization and discounting.

Fee Exceptions

There are two exceptions – the designation of the space as non-cancelable and in instances where the USPS is the property owner.

Non-Cancelable Space Exception

A 2 percent discount is accorded to customer agencies for leased assignments in which PBS views the space to be non-cancelable. In these cases the fee is reduced to 6 percent. The discount is 2 percent, not 4 percent, because other guarantees are still in place. PBS, not the customer agency, designates the space as non-cancelable. Customer agencies can not volunteer to designate their space as non-cancelable resulting in a reduced fee of 6 percent. The non-cancelable designation is applicable to both federally owned and leased space. In the case of federally owned space, the fee is embedded in the shell rate and no discount to the shell rate is granted. The designation of non-cancelable should be documented in the OA and made 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. Should the real estate market change, rendering space that was once designated as non-cancelable now commonplace or no longer remote, the space designation of non-cancelable can be removed for a subsequent OA term.

Definition of Non-Cancelable Space

Non-cancelable space is characterized by the unlikelihood that PBS can find a backfill tenant due to specific qualities of the space. Specific qualities include:

- Remote or not easily accessible location.
- Special purpose use or buildout necessitating significant capital outlays to retrofit the space to a more conventional use.
- Any other factors which would significantly impair PBS's ability to backfill the space.

USPS-Controlled Space

For space assigned to PBS customer agencies in USPS-controlled properties, the PBS lease fee is 4 percent. PBS prices USPS-controlled space as it prices leased space: as a pass-through of the rental charge assessed by the owner. The fee is reduced in USPS space to 4 percent because PBS bears none of the contract risk component. USPS holds the risk of vacancy and there is no formal contract (hence no contract formation risk), although there is an occupancy agreement. The purpose of the 4 percent fee is to recover the other components of the PBS lease fee.

Services Provided by Fee

The following narrative details the scope of services that PBS performs (either in-house or by contract) in the normal course of acquiring and servicing leased space. Following the narrative, there is a summary table that outlines the services provided in the case of both federally owned and leased space. Both the narrative and the table indicate at what point the PBS baseline service ends and the customer agency becomes responsible for additional cost.

Federally Owned Space

In federally owned space, PBS provides these services as the building owner with compensation for these services included in the appraised shell rate.

Leased Space

In leased space, PBS is compensated for these services through the 8 percent fee.

Lease Acquisition Services

Conduct a survey of the space available within the delineated area. the table below presents the elements of a market survey.

Elements of a Market Survey (Specific Building Information)
Building address and owner.
Building age.
Location of the available space within the building.
Amount of available space within the building expressed in both local measurement and BOMA usable square footage.
Common area factor.
Description of the quality of the building.
Statement indicating whether or not the building is in full compliance with the ADA and UFAS.
Identification of any potential fire and life safety problems.

(chart continued on page 3-17)

(chart continued from page 3-16)

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 tenant improvements allowance/improvements included in the asking rental and the market standard, 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.

Solicit Offers

Place the government's requirements on the market in a clear and concise fashion. The SFO is to be user-friendly and contain information required to obtain quality space for the tenant agency. Prepare and issue the SFO and any necessary amendments to the SFO.

Review and Evaluate Offers

Review and evaluate offers to determine which are fair and reasonable, and in compliance with the government's requirements.

Offer evaluation includes, but is not limited to, the following for each offer:

- Review the offer for compliance with the minimum requirements of the SFO.
- Review floor plan(s) of the offered space and the location of the offered space within the building.
- Measure plans to verify the BOMA usable square footage.
- Review offered space/building to determine whether it meets PBS fire and life safety requirements (any deficiencies are to be addressed during negotiations).
- Review offer to determine whether or not the appropriate seismic safety certifications, or other certifications, as required by SFO, have been provided.
- Review any exceptions taken to the General Clauses.
- Review the completed Representations and Certifications Form for completion and accuracy.
- Evaluate the base cost of services and the Lessor's Annual Cost Statement.
- Perform cost and price analysis of the cost elements outlined on GSA Form 1217 by the Offeror in situations
- Where the total operating costs presented exceeds market rates or there is just reason to question the proposed rates.
- Evaluate the overtime rate for heating, ventilation and air conditioning (HVAC) for those offers where utilities and/or HVAC are included in the rental rate and the lessor wishes to charge a fee for overtime-utility usage.
- Address special security requirements, and arrange for a pre-lease security survey.

Prepare an abstract of each offer, including, but not limited to, the points identified above as well as the annual rental expressed in local measurement and BOMA usable square feet for the initial term and the renewal term; the length of the initial term and the renewal term; the base cost of services; any concerns regarding the rent including alterations and reimbursable alterations (non-amortized) required by SFO; ADA/UFAS compliance; and, Fire and Life Safety considerations.

Negotiate Offers

Develop written negotiation objectives for the overall acquisition and specific to each offer. The negotiation objectives shall include those items of a specific offer which require clarification and those items that need to be addressed with the Offeror.

Conduct independent negotiations with each Offeror. Advise Offerors verbally and in writing of weaknesses and deficiencies in their offers. Advise Offerors of the need for a Small Business, Small Disadvantaged Business, and Women-Owned Small Business Subcontracting Plan (if required). Negotiate Small Business, Small Disadvantaged Business, and Women-Owned Small Business Subcontracting Plan and submit to the GSA Small Business Technical Authority and the Small Business Administration through the COR for review and approval. Prepare a record of negotiations for each Offeror. Prepare price negotiation memorandum.

Evaluate Offers

Request, receive, and analyze best and final offers (BAFO). Each BAFO shall be evaluated with the objective of determining the most advantageous final offer based on the financial and non-financial factors identified in the SFO and the method of evaluation described in the SFO. Conduct present value analyses on all responsive offers. Determine successful offer. A statement as to why the proposed rental rate is fair and reasonable will be prepared. Notify all unsuccessful Offerors in writing.

Prepare Lease Documents and Award Lease

Preparation includes most or all of the documents contained in the SFO, a lease rider, floor plan(s) as required and other pertinent information as applicable from the BAFO, including annual rental, square footage, and any other costs not provided for in the annual rental such as utilities and services and above-standard alterations. Incorporate any changes to the draft lease contract required by the tenant agency and Contracting Officer's Representative (COR).

Additional Services

Prospectus Generation

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

Requirements Development

PBS offers professional consulting services to define space requirements for new, expansion, or replacement space. Requirements are developed by gathering facts, and analyzing the intended functional relationships of the work environment, while taking into consideration personnel, technology, space, furniture, security, accessibility, and overall mission of the agency.

The deliverable is a comprehensive, professional requirements package (which includes the official Request for Space) ready for space acquisition and design development. The development and negotiation of OAs with customer agencies are included in the requirement development stage. An initial submittal plus two on-board revisions are included.

Space Planning

PBS provides Design Intent Drawings (DIDs). DIDs are architectural drawings which 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" to the owner's (lessor or PBS) architect for the purposes of preparing construction documents. DIDs do not contain mechanical, electrical, or plumbing specifications or drawings. They do not carry furniture or computer and telecommunication specifications; nor do they contain signage, artwork, keying, or hardware schedules. An initial submission plus two on-board reviews are included. For initial occupancy in Federally-owned space, PBS does not charge the tenant for design services through design development. Once the Construction Documents phase is begun, tenants are responsible for their design costs that are funded with their tenant improvement allowances.

The PBS lease fee does not cover the following items:

- 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: lab; conference centers; computer facilities; etc.

Appraisals

When PBS requires an appraisal to determine the value of a leasehold interest, or in the case of federally owned space for Rent determinations, the PBS fee covers the appraisal.

GSA Legal Staff Support

Legal support includes reviewing and giving counsel on: the solicitation for offer (SFO); the lease documents; changing ownership documents; estoppel documents, other than full and open competition (OTFO) documents; all protests and claims.

Occupancy Agreement (OA)

Prepare and revise, as necessary, an OA throughout the acquisition process. Secure necessary signatures before funds are expended or a lease is executed.

Environmental Studies

Federally-Owned Space

PBS conducts Phase I and, where warranted, Phase II environmental studies of properties to ensure against contaminants and other risks. The cost of an environmental assessment (EA) or an

Leased Space

PBS requires offerors and lessors to secure the same studies as indicated above in federally owned space, when there are indications (e.g., from prior use history of the site) that there may be environmental contamination, as well as in leases for which PBS is considering taking environmental risk (through lease clause changes which limit GSA's 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 EA or EIS. PBS will procure these studies on a reimbursable basis in the case of leased space. Only when PBS controls the site for a leased property (such as if PBS obtains an assignable purchase option), will PBS initially cover the cost of any necessary environmental studies associated with that particular property. PBS will seek reimbursement from the eventual purchaser of the site for these studies. Further, the PBS lease fee does not include the cost of remediation of site contaminants or other environmental problems related to the relocation of Federal agencies to leased space.

Contingent Fee

The PBS lease fee is contingent upon the customer agency's final agreement to occupy the space. Customers have the ability to withdraw up until the time PBS is ready to obligate funds, in the case of federally owned space, or sign a lease. If the customer agency withdraws prior to lease execution, no fee applies. PBS takes this business risk.

Post Award Services

Project Management

This consists of a broad set of actions entailing full oversight over the design and construction of tenant improvements for initial occupancy. The tasks include the following:

- Schedule development, review, and enforcement.
- Descoping.
- Cost estimation.
- Price negotiation of specialty items and change orders.
- Progress and final inspections.
- Project cost reconciliation.
- Follow-up enforcement to ensure punch list items are performed.
- Space measurement and acceptance.

The level of project management oversight applied to the project including the frequency of site visits will be based upon the complexity and uniqueness of the project and will be determined by PBS. After occupancy commences, PBS will provide project management services for space alterations for a separate fee, discussed below. The PBS fee covers only initial space alterations.

The Separate 4 Percent Project Management Fee

The project management fee covers salary and benefits of PBS Associates overseeing tenant improvement work and contract employees hired by PBS to work as project managers. In addition, it is intended to cover business line overhead such as the cost of furniture, information technology, telephones, office equipment and supplies for PBS Associates.

The project management fee does not cover contract costs (space programming, design, construction, the cost of a Construction Management firm hired by PBS to oversee a specific project), purchases or the cost of PBS Associates who actually perform the work (hammer the nails). These direct costs are charged against the tenant improvement allowance or Reimbursable Work Authorization (RWA) depending on funding responsibility.

PBS pricing policy is to charge a fixed 4 percent fee for PBS Associates' oversight of tenant improvement work as outlined below. It is no longer policy to charge actual costs for project management oversight by PBS Associates. In circumstances where the work site is remote, PBS can request that the customer agency agree to reimburse PBS for the travel expenses of PBS Associates overseeing the project, beyond 4% project management fee. In these cases, PBS must estimate the travel costs, and secure the customer agency's consent to the charges in the OA.

In cost estimation for federal construction projects, the 4 percent fee is not a substitute for the design or management and inspection numbers in "look up" tables or estimating tools. The 4 percent project management does represent a guide by which PBS can gauge the level of effort it should expend in managing tenant construction projects.

Owned Space

The shell rent covers PBS Associate project oversight of tenant improvement allowance at initial occupancy only. The 4% project management fee applies to the value of the tenant improvements over the allowance for initial occupancy. The 4% project management fee applies to all post initial occupancy (same OA term, same space) tenant improvement work. The 4% project management fee also applies to the total value of the tenant improvement work in the case of continuing occupancy (new OA term, same space), whether the work is funded with a tenant improvement allowance or via a reimbursable payment, e.g., RWA. If the tenant improvements are funded via a reimbursable payment, e.g., RWA, the sliding scale overhead charge, which covers non-business line overhead costs, should be applied to the total value of RWA, including the 4% fee for project management. The 4% project management fee is not automatically charged to the RWA and must be accomplished by PBS financial staff via a manual cost transfer.

Leased Space

The 4% project management fee only applies to TI funded via RWA. The 8% PBS fee covers PBS Associates' oversight of tenant improvements amortized in rent. The sliding scale overhead charge is applied to the total value of the RWA, including the 4% fee for project management. The 4% project management fee is not automatically charged to the RWA and must be accomplished by PBS financial staff via a manual cost transfer.

Telecommunication Network Services and Information Technology

Introduce GSA's internal telecommunications/network services and information technology experts to the client agencies. Actual cost for provision of these services is outside of the PBS fee.

Furniture, Equipment and Supplies

Introduce GSA's internal furniture, equipment, and supply experts, including private industry vendors, to the client agencies. Actual cost for provision of these services is outside of the PBS fee.

Telecommunication Network Services and Information Technology

Introduce GSA's internal telecommunications/network services and information technology experts to the client agencies. Actual cost for provision of these services is outside of the PBS fee.

Furniture, Equipment and Supplies

Introduce GSA's internal furniture, equipment, and supply experts, including private industry vendors, to the client agencies. Actual cost for provision of these services is outside of the PBS fee.

Physical Move

Introduce GSA's move contractors to client agencies to assist in the planning and execution of the physical relocation. Actual cost for provision of these services is outside of the PBS fee.

Relocation Management

Introduce GSA's expert consultants to the client agency to assist in full-service relocation management including, but not limited to: planning, scheduling, and developing move sequence plans; conducting project management meetings; supervising deliveries and installations; etc. Actual cost for provision of these services is outside of the PBS fee.

Special Consulting Services

Introduce GSA's expert vendors and suppliers to the client agency to assist in arranging for all ancillary services including, but not limited to: office art; audio-visual systems; acoustics; records management; copy and mail room services; lighting; specialty security; signage, etc. Actual cost for provision of these services is outside of the PBS fee.

Services During Occupancy

Lease Administration

Administer and manage lease contracts, which includes the following:

- Processing taxes, step rents, and operating cost escalations.
- Initiating and executing contract changes and additions.
- Enforcing lease terms and conditions.
- Procuring services outside of the lease.
- Paying rent to building owners.

Property Management

Federally Owned Space

For federally owned space, PBS provides a full complement of property management functions attendant to operating a professional office building.

Leased Space

PBS performs periodic site visits and works closely with customer agency representatives to ensure the lessor performs the services to the lease contract standard. For large lease locations (typically leases over 250,000 square feet) PBS usually provides on-site representatives to monitor lessor performance and lease contract compliance.

When lessor-provided services are faulty or rendered inadequately, PBS property management personnel make arrangements for the performance of the services by others. 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. Customer agencies pay the actual contract cost PBS incurs plus the 8 percent fee.

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

A small administrative fee applies when PBS handles recurring premium services (e.g., overtime utilities, executive-level cleaning).

In both federally-owned and leased space, PBS property management staff provides expertise and advice, without fee, in such areas as; child care; energy use; recycling; contracting; repairs; safety; environmental assessment; and renovations and alterations.

Fire and Life Safety

Assess PBS-controlled space to ensure compliance with federal and/or local codes prior to and throughout customer agencies' space assignment.

Fee Matrix for Initial Occupancies

Activity	Included in Fee Leased	Included in Fee Owned*	Agency Responsibility	Notes
Lease Acquisition Services				
Survey Market	Yes	N/A		
Solicit Offers	Yes	N/A		
Review & Evaluate Offers	Yes	N/A		
Negotiate Offers	Yes	N/A		
Prepare Lease Documents	Yes	N/A		
Evaluate Offers/Award Lease	Yes	N/A		
Post Award Services	Yes	N/A		
Lease Administration	Yes	N/A		
Closeout Lease	Yes	N/A		
Additional Services				
Prospectus Generation	Yes	Yes		
Requirements Development	Yes	Yes	If exceed baseline	Limited to initial submission plus two on-board revisions.
Space Planning	Yes	Yes	If exceed baseline	Limited to initial submittal plus two on-board revisions.
Appraisals	Yes	Yes		
GSA Legal Staff Support	Yes	Yes		
Occupancy Agreement	Yes	Yes		
Environmental Studies	No	Yes		Lessor performs as part of lease contract amount

* Fee in Owned Space is included in the "shell."

Activity	Included in Fee Leased	Included in Fee Owned*	Agency Responsibility	Notes
Post Award Services Project Management of Tenant Improvements	Yes- up to tenant allowance	Yes- up to tenant allowance	For TI costs that exceed the TI allowance an additional 4 percent Project Management Fee applies.	
Tele communication Network Services & Information Technology	No	No	Yes	Introduce GSA's internal telecommunications/ network services and information technology expert to the client agencies. Actual costs for provision of these services are outside the fee.
Furniture Equipment & Supplies	No	No	Yes	Introduce GSA's internal furniture, equipment and supply experts, including private sector vendors, to the client agencies. Actual costs for provision of these services are outside the fee.
Physical Move	No**	No**	Yes**	Introduce PBS's move contractors to client agencies to assist in the planning and execution of the physical move. Actual costs for provision of these services are outside the fee.
Relocation Management	No	No	Yes	Introduce GSA's expert consultants to assist in full-service relocation management. Actual costs for provision of these services are outside the fee.

* Fee in Owned Space is included in the "shell."

** In accordance with the OA Term.

(chart continued on page 53)

(chart continued from page 52)

Activity	Included in Fee Leased	Included in Fee Owned*	Agency Responsibility	Notes
Post Award Services				
Special Consulting Services	No	No	Yes	Introduce GSA's expert vendors and suppliers to the client agencies to assist in ancillary service including, not limited to: office art; audiovisual systems; acoustics; record management; copy and mail room services; lighting; specialty security, signage; etc. Actual costs for provision of these services are outside the fee.
Services During Occupancy Term				
Lease Administration	Yes	N/A		A small administrative fee applies when PBS handles recurring premium services- overtime utilities, executive-level cleaning
Property Management	Yes	Yes		
Fire Life Safety	Yes	Yes		

3.2.11 Joint Use Charges

Joint use charges are rents and operating costs for specific amenities, including government-run cafeterias, Randolph-Shepherd Act blind stands, daycare centers, fitness centers, Public Health Service wellness units, shared conference rooms, and visitor parking spaces. The costs for these amenities are summed and distributed among all federal users on any one of three bases – building, lease, or facility – directly in proportion to each user's percentage of federal occupancy. Joint use charges apply whether or not employees of the customer agencies elect to use joint use facilities. Joint use facilities are "public good" facilities to which the applicable federal community must contribute, just as residential communities pay for local fire departments and ambulance services.

Joint Use User Base

Pricing policy allows for a more broadly defined user base than the building which houses the joint use space, for distribution of joint use charges, where warranted. If a building houses amenities, such as a childcare center or a cafeteria, used by customer agencies in neighboring buildings, these customer agencies may be included in the user base. However, due to present STAR

limitations, joint use charges can only be distributed over a user base defined by the boundaries of a lease, building, or facility which houses the joint use amenities. The STAR system limitation does not preclude manually creating a wider user base and adding or adjusting CBRs to distribute joint use charges over the wider base. Although PBS policy allows for the distribution over a more widely defined user base, until STAR limitations are corrected there is no requirement that the distribution be undertaken manually and then entered into STAR. The single exception is the case of freestanding structures for childcare centers or separate joint use buildings that are physically disconnected from their user base. In this case, the charges for the joint use amenity are distributed via creation of new CBRs, posted to the joint use building number, for each user in the user base. PBS must notify the customer agencies of the charge by letter and include in the customer agencies' OAs.

Stability of Joint Use Charges

Once established, the joint use charges for a customer agency may change if the total joint use space in the building, lease, or facility changes (i.e., a new amenity is added or an existing joint use amenity is removed from the inventory). PBS will not, however, re-allocate joint use charges in the event some portion of the total amount of space assigned to federal use becomes vacant. In such cases, PBS will absorb the joint use charge related to the vacant space until a new tenant is found.

Joint Use Space & STAR & Rent Bill

Joint use space charges are listed as line number 12 on the customer agency's Rent bill. Although the joint use charges appear as a single line on the Rent Bill the charges are actually comprised of shell rent, amortized tenant improvements, taxes, operating expenses, and security charges. Joint use charges are subject to rent escalations like conventional customer agency assignments. Security charges and the PBS lease fee are automatically assessed within STAR and do not have to be manually calculated.

The construction of the joint use charge cannot at present be undertaken in STAR. As stated above, STAR treats joint use as a single rate. STAR does not compute joint use; rather it is entered into STAR as a single rate at the building, lease, or facility level. The single rate represents the aggregate charge for all of the joint use amenities. In the interest of simplicity and consistency, until STAR is enhanced to treat joint use as a CBR, with the individual components that contribute to the overall joint use rate resident within STAR, the following PBS pricing convention for joint use space will be followed:

Federally Owned Space

The joint use charge is comprised of the following components:

- "Shell" rate derived from an appraisal.
- An amount equal to the General TI allowance plus a Tier 3 Customization allowance amortized over 10 years.
- Operating costs.
- Security.

The TI amortization and operating costs are reset each year at the beginning of the fiscal year. PBS is continuously amortizing TIs and updating the shell Rent for joint use space. The justification for this methodology is that PBS has the responsibility for continuously keeping modern the equipment and personal property used in childcare centers, cafeterias, and Randolph-Sheppard stands and so must recover these costs.

Leased Space

- The joint use charge is comprised of the following components:
- Lease cost.
- Any additional services not included in the lease.
- PBS fee.
- Security.

Joint Use and the Tenant Improvement Allowance

Two separate cases exist regarding the use of the tenant allowance.

Multiple Agencies in a Building, Lease or Facility

PBS funds the build-out of shared amenities. Since PBS is funding the improvements in their entirety, there is no need for PBS to distinguish between an allowance and an agency lump sum amount.

Single Agency Within a Building

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

3.2.12 Charges for Integrated Services

RESERVED

Chapter 4: Pricing the Most Common Occupancies

The previous chapter covered the general conventions that give overall shape and definition to PBS's pricing approach. While these conventions are operative throughout the PBS portfolio, they vary in application for each of three broad categories of occupancy. Whether a customer agency is housed in federally owned space or leased space, all occupancies fall into one of three broad categories:

- New.
- Continuing.
- Backfill.

Each occupancy convention is discussed in this chapter.

New Occupancies

A "New" Occupancy for pricing purposes is defined as space that is new to the PBS inventory.

Federally Owned Space

In federally owned buildings this usually means the first ever use of the space (i.e., new construction). Base the shell rate on the appraisal of the building in its shell condition (i.e., without tenant improvements). This enables PBS to add to the appraised shell the cost to amortize the tenant improvements selected by the customer agency.

With permission of the Regional Portfolio Director, you may structure the Rent rate to include a free rent period. If free rent is offered, set the follow-on rental rate to achieve the same present value over the initial five-year period as the appraised rate. Since free rent means there is no rent charge whatsoever during the free rent period, then Rental charges for operating expenses, amortization of tenant improvements, joint use charges, security, and parking must also be adjusted to recoup over the remaining OA term the Rents that would have been collected during the free rent period.

Leased Space

For leased buildings, the space may or may not have had a prior tenant. Leased space is considered "new" if its prior use was non-PBS, or if PBS's occupancy is discontinuous. For example, if the building or any part of the 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 – it 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 customer agencies under PBS leases.

Although the leased space may be new to the PBS inventory, the offered space may contain tenant improvements from the previous tenant. PBS's policy and practice in these cases is to require the prospective lessor to provide the full complement of tenant allowances based on the customer agency's tier. If acceptable to PBS and the customer agency, the lessor may be able to use some of the existing tenant improvements, but all demolition costs are to be borne by the lessor as part of the offered shell rental rate.

New Occupancies and Expansions

In some cases, there can be a "new" occupancy added to an existing occupancy, such as a newly constructed courthouse annex, or an expansion to an existing lease. The OAs for the expanded space can be treated in two ways: amend the existing OA to include the expansion space or create a separate OA for the expansion space.

Amend the Existing OA

The existing OA is amended to include the expansion space. The term of the existing OA may also be adjusted. In leased space, the OA should continue to mirror the underlying lease contract. For federally owned buildings, the Rent on the expansion space can be blended with the Rent on the pre-existing space to arrive at a composite rental value. In such cases, there is no need to re-set the expiration date for the shell rate on the existing space; whatever shell rate 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 which covers both the initial and the expansion space.

Separate OA for the Expansion Space

The expiration for the separate OA should coincide with the OA expiration date in the initial OA.

Continuing Occupancies

Continuing occupancies apply to both federally owned and leased space. In federally owned space, a continuing occupancy is one in which the tenant will remain in the same space that the tenant occupied during the prior OA term. In leased space, a continuing occupancy is one in which the tenant remains in the same leased space as the result of a succeeding lease, superseding lease or the exercise of a renewal option.

Continuing Occupancy in Federally-Owned Space

Treatment of continuing occupancies in federally owned space for the transition to New Pricing in FY 2000 is explained in full in the document "The Fiscal Year 2000 Conversion of the Existing Inventory to New Pricing," found at Portfolio's web site at the following address: <http://www.gsa.gov/pbs/pt/opm/>.

Under the transition to New Pricing, PBS established a shell expiration date for each CBR. When the shell expiration date matures, an OA is to be prepared for the converted assignment. All shell rates for the converted owned inventory will expire between October 1, 2000 and September 30, 2004. Additionally, at the point of transition, PBS established a TI charge for assignments that were, as of the time of conversion, 10 years old or younger (CBR commencement date of 10/1/89 or later).

At the conclusion of the OA term or the expiration of the shell rate in the case of the converted inventory, a new OA is prepared.

For the follow-on OA period, PBS's policy is to charge the customer agency an "as is" office rental rate. This "as is" rental rate, determined by appraisal, is the value of the space in its current condition on the open market for use as office space. It is more than the shell rate because it includes rent on the residual value of the tenant improvements. In the case of warehouse space, an "as is" warehouse rate is obtained. PBS is warranted in charging the "as is" office rate (including the residual value) For three reasons:

- The improvements have value and belong to PBS, not the customer 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 build-out.
- The "as is" office Rent represents PBS's opportunity cost for the space. In theory, PBS could find a new tenant to pay such a Rent without any further tenant work.

The "as is" rate, determined by a third-party appraiser, is charged without alteration as the Rent for continuing occupancies in owned space. The rate is appealable, but not negotiable.

The procedures outlined above govern Rent setting for assignments in owned space that are more than 10 years old at the point of conversion to New Pricing, and will govern all future continuing occupancies in owned space where the tenant improvement allowance has been fully amortized. For assignments in owned space that are less than 10 years old at the time of conversion (10/01/89 or later) the following procedures governed the setting of Rent.

Assignments Younger than 10 Years

To convert these assignments to New Pricing, PBS took the appraised "as is" rate for office and stripped off the component of Rent associated with the office-type tenant improvements. This was necessary because the appraised "as is" office use rate includes Rent on the office-type tenant improvements. PBS then added back a value for the TIs still being amortized. This value was derived from examining the space classifications for each CBR, and then, using a space fit-out study that provided cost ratios associated with each space classification, blending together these costs to reach a total presumptive initial tenant improvement cost. This cost was then treated as still being amortized in the rent (at 7.579 percent with a 10-year amortization term). The amortized cost was added to the modified "as is" shell rate to create the new rental rate.

Tenant Improvements During Continuing Occupancies

At the time of negotiating an OA for a continuing occupancy in owned space, customer agencies may look to PBS to provide capital funds to alter the space or to refreshen 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 complement of tenant improvement allowances can be made available to the client agencies at this time. However, PBS does not have the funds to do this routinely nor is it expected that the customer agency will have the rental budget to pay the amortized cost or the need for the use of the full tenant allowance. Customer 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 BA 54 budget. Regional Portfolio Directors are typically the officials who manage these funds and therefore must approve these expenditures.

In cases where additional TI expenses are incurred, a new and separate TI amortization schedule is created in STAR. For a period of time, a customer agency may have two (or more) separate TI amortizations running concurrently: one conversion-related, and one related to expenditures made as a result of establishing the new OA. The conversion-related TI term should remain unchanged and should not be reset to the new OA term. As the conversion-related TI term ends, that TI will drop from the customer agency's Rent.

In cases of continuing occupancy, customer agencies can also fund tenant improvements by RWA in both owned and leased space.

Rent Adjustments for Assignments with Agency-Funded Tenant Improvements

During OA negotiations, it may become apparent that a customer agency had fully funded the TI charge created by the conversion. PBS and the customer agency must check project files and provide evidence that, in fact, the customer agency did fund via RWA for the build-out of the tenant improvements and not just the "above standard items." In these cases, an adjustment and/or elimination of the TI may be appropriate.

Appraisals and Continuing Occupancies

PBS's policy is to use the fair annual Rent determined by contract appraisal. PBS's reliance upon contract appraisals represents a clear and forthright means to establish a fair and reasonable Rent by a disinterested third party. Thus, it is PBS policy to use the appraiser's value without alteration in the OA. Appraisal generated fair annual Rent values for continuing occupancies are neither raised by PBS in the pursuit of greater Funds from Operations (FFO), nor lowered in negotiations with a customer agency. In rare cases, due to particular facts concerning a specific occupancy of which the appraiser was unaware, the appraised Rent can be adjusted. Variances from the appraised rental rate can occur only with the Regional Portfolio Director's approval. Any adjustments to the appraised Rent must be thoroughly documented in writing.

It is PBS policy to honor, at the CBR level, the appraised rent rates for serviced shell space (as shown in the Appraisal Tables) that were used to develop the RentEsts. This CBR level compliance will only apply to continuing occupancies in Government -owned buildings and portfolio leases. Care will need to be taken to ensure that the rates used in developing the RentEsts are used in setting the Rent for the budget year. Because the RentEst numbers are a blend in the Rate Tables, they will differ from the appraised rates in the Rate Tables; however, the appraised rates are what are assured for the CBRs. The CBR level rate assurance applies only to the appraised rates for shell rent and operating expenses. The assurance excludes all assignments in leased buildings (except portfolio leases) and in USPS buildings, all tenant improvements, security charges, square foot changes, and new assignments and expansion space in owned buildings and portfolio leases.

Release of Appraisal Information

PBS expects our customer agencies to recognize and accept third-party appraisals procured by PBS as the best and most expedient means of setting intra-governmental pricing for federally owned space. If a customer agency believes the appraised rental value is wrong and requests a review of an appraisal (prior to filing an appeal), PBS should agree to discuss the appraisal and, as appropriate, share information from the appraisal (including comparables). Confidential information such as the identity of tenants in the comparables may be redacted.

The burden of proof is on PBS to demonstrate that the fair annual Rent rate was correctly derived from the appraisal and the appraisal was properly conducted. It is not reasonable to expect that a customer agency accept every appraisal-generated Rent value without access to the appraisal or the comparables upon which the appraiser relied. While information from the appraisal may be shared, the fair annual Rent rate is not subject to negotiation.

Continuing Occupancies in Leased Space

In leased space, continuing occupancy is marked by the execution of a succeeding lease (whether the result of competition or a sole source negotiation) or the exercise of a renewal option. Continuing occupancies retain the pass-through pricing structure of the original lease. The principal difference between new and continuing occupancy in leased space concerns the treatment of tenant improvements.

At the end of a lease firm term, the lessor has typically recovered the cost (with interest) of the tenant improvements they financed for the benefit of PBS's customer. This generally gives the lessor a price advantage in competing for the replacement lease. However, lease expiration creates an opportunity for the customer agency, if the incumbent lessor is the successful offeror, to use the lessor to fund space changes, tenant improvement updating, or upgrades. This opportunity is exercised at the election of the customer agency. In continuing occupancies, as in new occupancies, the customer agency is afforded up to the full tenant allowance – both general and customization. If the customer agency utilizes only a part or none of the tenant allowance, the Rent will be adjusted accordingly. In the case of competition for the replacement lease, the customer agency needs to communicate to PBS before SFO issuance its intention to tap the allowance—and to what extent—in case of a succeeding lease. Customer agencies should understand that, while PBS is willing to accord them the full tenant allowance even if they remain at the same location, using the full allowance significantly erases the incumbent lessor's price advantage. When evaluating price, PBS will add the tenant improvement amortization cost to all offerors, including the incumbent lessor. If the customer agency plans to use less than the full allowance, then PBS can use a lower tenant improvement number for the incumbent lessor in the price evaluation. Customer agencies must be very clear about their intentions, so that PBS can properly evaluate the leased space alternatives and select the most economically advantageous offer.

Backfill Occupancies

Backfill occupancies occur in the case when PBS has existing space—whether federally owned or leased—that is already built-out but vacant and available for a new tenant. Three pricing issues distinguish backfill occupancies from new and continuing:

- Valuation of the existing tenant improvements for the purposes of establishing the rental charge for the backfill customer agency.
- Determination of the TI allowance that will be accorded to the backfill customer agency.
- Determination of the amount of discretion to be accorded to the PBS region in deviating from the appraised value in federally owned space and the contract rent in leased space.

Valuation of the Existing Tenant Improvements

The PBS policy for pricing vacant existing space (space in the PBS inventory with a prior use or tenant) is described for federally owned and leased space.

Federally Owned Space

The "as is" appraised rate is the beginning point. Add the cost to amortize any new TIs the customer agency elects to make within the space to the "as is" rate. Demolition costs to remove old TIs are not chargeable against the new customer agency's allowance. Additionally, costs associated with replacement (if necessary) of elements of the building shell are not chargeable to the customer agency's tenant allowance. PBS must absorb these costs, and the recovery vehicle is the shell rate.

Leased Space

Begin with the lease contract value. Add the cost to amortize any new TIs the customer agency elects.

If the lessor is used to finance the customer agency's TI, and there exists demolition or shell replacement items, the resulting contract rent will not be completely passed through to the customer agency. PBS will need to absorb the demolition and replacement shell costs.

Determining the TI Allowance

All backfill occupancy customer agencies should be accorded (within PBS's ability to fund) the full complement of TI allowances that would have otherwise been available under a new occupancy. This is done for the following reasons:

- PBS should provide every incentive to customer agencies to backfill PBS-controlled space rather than lease new.
- For PBS to attempt to adjust the TI allowance downward to account for the degree to which a customer agency is willing to use existing improvements would be a disincentive to the customer agency to accept existing improvements. (The more the customer agency accepts, the lower the tenant allowance would be, thereby limiting what funds the customer agency would have to spend on new fixtures and finishes.)
- PBS needs to trust that by enabling client agencies to pay only for what they use, they will self-monitor expenditures for TIs in backfill space just as they would in new space.
- Private landlords do the same.

Funding the TIs in Federally Owned Space

The funding for TIs in federally owned space is via BA54 funds up to the allowance, and the customer agency for amounts over the allowance.

Funding the TIs in Leased Space

The preferred funding source for the tenant allowance, as well as for any necessary changes in shell elements, is the lessor. The lessor can be compensated in one or both of two ways:

- Extend the firm term of the lease.
- Agree to some additional increment in rent.

Either alternative listed above is preferable to using scarce BA54 funds for leasehold improvements. As in owned space, the customer agency is responsible for tenant improvement costs that exceed the tenant allowance.

Pricing Flexibility

In order to optimize income to the Federal Buildings Fund, the exercise of administrative discretion in setting rental rates for backfill customer agencies is frequently warranted in both federally owned and leased space. The offer of a discount or free Rent in order to achieve an earlier backfill may result in greater income over time as opposed to waiting for a customer agency who may be willing to pay full market rent, as represented by the appraised rate or the underlying lease contract rent.

In the case of both federally owned and leased space, realty specialists or others involved in the proposed transaction must confer with the regional asset manager of the building and secure the approval of the Regional Portfolio Director prior to offering a reduced rate or free Rent to the customer agency.

Below-market rental offers made to encourage occupancy of backfill spaces are the equivalent of a Rent concession. Rent concessions have finite terms and have slight variations in their applications for federally owned and leased space.

Federally Owned Space

The Rent concession should not exceed five years, and could be well short of five years, regardless of the OA term. The intent is to bring the customer agency's Rent into conformity, in the shortest period possible, with the appraised rate as discussed under, "Continuing Occupancy."

Leased Space

A below-the-contract-rental-rate offer should not cover a period beyond the firm term of the lease, and could be well short of that date.

If the backfill tenant, in turn, returns the space upon four months' notice, before expiration of the OA term, then the tenant is liable for any portion of the rent concession unearned by that date. This applies to both owned and leased space. (See discussion of Rent concessions in Chapter 6.)

Chapter 5: Move Policy

This chapter outlines PBS policy as it relates to moves. Agencies are responsible for funding their own physical moves and telecommunication costs. Customer agencies in both federally owned and leased space can expect to fund all move costs at the end of their OA term. There are two exceptions to this general policy:

- Another agency is forcing the settled agency prior to expiration of the settled agency's OA term. The forcing agency is responsible for costs as described below. Should PBS interrupt the settled agency's OA term, PBS is considered the forcing agency.
- Emergency relocations due to disasters or crises. In cases of emergency relocations, PBS usually funds the moves initially. It is not expedient to have sister federal agencies contest funding responsibilities with each other in times of disaster and/or crisis.

With the issuance of this edition of the Desk Guide, PBS is abolishing two other cases in which agencies were not previously responsible and are now responsible for all costs associated with their moves – PBS-Initiated Consolidations and R&A Swing Space as related to building modernizations.

PBS-Initiated Consolidations

PBS Initiated Consolidations have been eliminated for the following reasons:

- The term "PBS-Initiated" has never been defined and consequently it has been misapplied to cover such things as single agency/single location moves to new federal office buildings and courthouses.
- Commercially comparable real estate rents do not compensate PBS for assuming this funding responsibility.
- In the case of true consolidation for a particular customer agency, the consolidated agency is the beneficiary. It is no longer in multiple locations, but rather in one new location, and can enjoy the economics of improved inter-office communication, shared administrative support, etc. Since the principal benefit accrues to the consolidated agency, the burden of funding the move accrues to the consolidated agency as well. PBS's policy is to treat all agency consolidations as agency-initiated.

R & A Swing Space

R&A Swing Space move category has been eliminated because it confounds a central pricing precept: just as in leased space, customer agencies in federally-owned space do not have a perpetual right of occupancy. The OA confers a right to occupy for a specific duration. For federally owned buildings, PBS can look ahead to eventual rehabilitations or modernizations (or in some cases disposal) and specify the 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.

In the event the customer agency returns to the building after the modernization is complete, the customer agency remains responsible for funding the move costs out to the swing space and back to the rehabilitated space. The customer agency is also responsible for the applicable swing space Rent. This policy change is a departure from PBS's previous practice, to insulate the affected customer agency from all economic impacts of a building modernization (except for a Rent increase upon the modernization completion). This previous practice was based on the concept that PBS's actions were analogous to an expanding agency's when displacing another agency and therefore PBS was responsible for associated move costs. PBS pricing policy establishes that PBS's actions are not analogous, as the agency has no right to occupancy beyond the OA term.

There may be instances in which PBS lacks negotiating leverage. (PBS has no alternative customer agencies to backfill a to-be-modernized building except the current customer agency, who is reluctant to undergo, much less fund, two moves.) In these instances, PBS may fund the physical move or provide some other incentive (e.g., lower initial Rent upon the agency's return or absorbing some of the tenant improvement costs in the swing space) to induce the customer agency to move twice. PBS, like any private sector lessor, should review options and make the best business deal it can make. Funding customer agency moves and/or covering other modernization expenses is warranted in exceptional circumstances only.

PBS's former pricing policy for R&A Swing Space insulated both the customer agency and PBS's own project decision-making from the rigors of good business judgment. In funding "like for like" in swing space locations and then in the permanent modernized space, PBS's former policy took no account for whether, given the agency's particular build-out needs, it might be more fiscally prudent to move an agency only once and backfill the modernized building with a new customer agency or curtail expensive build-out in short-term swing space. By placing the cost burden on the customer agency for swing space Rents, (amortizing their build-out during the swing term) PBS helps focus the customer agency's decision-making on the appropriate finish level for the temporary swing space.

OAs and Moves

The foregoing discussion assumes that an OA is in place, granting the customer agency a right to occupy for a specific term. Until all assignments have an OA in place, the following policy applies to assignments without OAs:

Federally Owned Space

Customer agencies have an indefinite right of occupancy.

Leased Space

A customer agency's right to occupy is coterminous with the firm term of the underlying lease contract.

Definition of a Forcing Agency

A forcing agency, for move funding purposes, is any federal agency, commission or other organization that displaces another agency – for whatever reason – before the displaced agency has reached the end of its occupancy term. The definition is applicable to both federally owned and leased space.

Funding Responsibilities of a Forcing Agency

A forcing agency is responsible for funding the following costs:

- To the displaced agency, the undepreciated value of the lump sum payment (if any) that the displaced agency made for initial tenant improvements or alterations in the affected space. Straight-line depreciation should be used with the depreciation schedule equivalent to the OA term. When there is no OA in place that specifies the amortization term, 10 years is the default. The displaced agency can elect to have PBS collect the money it is owed by the forcing agency, to be used to defray the cost of tenant improvements in its new location. Example - A displaced agency contributed \$200,000 in lump sum payments for tenant improvements at occupancy four years ago. The forcing agency now owes the displaced agency the undepreciated value of the improvements funded by the lump sum contribution. The value of these improvements has depreciated 40 percent on a straight line, 10-year depreciation schedule. The forcing agency owes the displaced agency the undepreciated balance or \$120,000.
- To the displaced agency, the cost of the displaced agency's relocation, including the physical move, move coordination, and relocation and installation of telecommunications and ADP equipment.
- To PBS, the remaining principal balance on any tenant improvements being amortized in the displaced agency's Rent and that the forcing agency does not plan to use. PBS will allow a forcing agency to amortize the remaining principal on the displaced agency's tenant improvements only if the forcing agency will use these improvements itself. If the former tenant's improvements are replaced, the forcing agency cannot finance something that no longer exists. If some improvements remain, the lump sum amount can be prorated. Payment is a one-time payment in STAR (as additional Rent) not by RWA.
- To PBS, any increase in the displaced agency's Rent at its new location, except for any difference in amortized tenant improvements, until the displaced agency has time to budget. The changes may involve shell rent, operating expenses, joint use charges, the PBS fee, or building-specific security. The forcing agency is not required to pay for the displaced agency's tenant improvements at the new location. The policy excepts tenant improvements, because control of build-out is with the displaced agency, and further, these costs will be amortized so the displaced agency has time to budget for the periodic payments in the out years. The payment vehicle for the forcing agency to cover the differential in Rent charges for the displaced agency's new location is also STAR.
- To PBS, the displaced agency's rent during the downtime from the time the displaced agency vacates and the time the forcing agency moves in.

Double Rent in the Event of Tenant Agency Caused Delays

All move scenarios involve mutually agreed-upon 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.

Pricing policy rests on the philosophy that customer agencies bear the costs of their decisions (or indecision). Hence, if a customer agency is responsible for delaying a move, then PBS may charge that agency Rent at two locations. The delays may be a function of the following:

- Customer agency makes scope changes to the project.
- Failure to make timely decisions on the finish schedule.
- Failure to meet review schedules for the design intent drawings.

The above examples are not intended to be exhaustive.

PBS places the cost consequence for these actions squarely on the tenant agency. This can be accomplished by accelerating Rent start at a new location, or, more commonly, by not adjusting the Rent start date even though the space will not be finished until later. Since PBS is typically the “landlord” in both the existing and new locations, this means Rent charges accrue for the customer agency at both locations.

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

- The customer agency is the responsible party.
- Failure to assess double Rent removes the incentive for the customer agency to abide by the schedule.
- Neither the contract fee nor conventional real estate Rents paid to PBS are designed to recoup these kinds of costs.
- In leased space, lessors are routinely accelerating Rent in the case of tenant delay, so if we do not pass the cost through in cases where the customer agency has delayed, then we are shouldering significant losses.

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

PBS or Lessor Caused Delays

PBS or the lessor may also be responsible for the delay.

Lessor Caused Delays

When the landlord creates a delay, no Rent is received for the period of delay. This happens whether PBS is the landlord (i.e., federally owned buildings) or whether the landlord is a private sector lessor.

PBS-Caused Delays

PBS can also be responsible for the delay in its role as tenant representative. The consequence of PBS-caused delay for the customer agency may be additional storage time for furniture, re-procurement expense, or additional consulting fees. PBS, as a party to the OA, acknowledges that in the case of PBS-caused delay, these costs to the agency are legitimate counterclaims to PBS Rents and fees. That is, the vehicle by which PBS “pays” a customer agency back for PBS-caused increased costs is to issue a credit against the agency’s Rent obligation (i.e., give the agency the equivalent value in free Rent).

Chapter 6: Customer Rights and Options

This chapter outlines rights and options available to customer agencies.

6.1 Return of Space

Four-Month Space Relinquishment Right

At any point during an occupancy term, upon four months' written notice, customer agencies have the right to relinquish space to PBS, if there is no longer a need for the space. Returned space must be in marketable blocks (discussed below). The space cannot have been characterized as "non-cancelable" either in an OA or other conveyance to the client.

Prior to the expiration of an OA term, PBS must accept the return of space upon four months' notice except in cases where the space has been designated non-cancelable or the space is not in marketable blocks.

If a customer agency has a continuing housing need, but is dissatisfied with its current location and wishes to relocate to a new leased location, PBS does not have the right to refuse the return of space. However, in such cases PBS does have the ability to prevent waste by declining to provide the customer agency with a delegation of leasing authority. The 1996 blanket delegation of leasing authority that was issued by the Administrator of General Services was not an unqualified delegation. The delegation requires, as a condition of approval, that the agency check with the appropriate PBS Assistant Regional Administrator (ARA) to ensure that PBS does not have space that can meet the agency's housing needs. In a case in which a customer agency does have a continuing need for the space, then the current space is still available to meet the housing need. Thus, the condition is not met, and the ARA can withhold approval for the delegation. Without independent leasing authority, then, a customer agency with a continuing space need cannot relinquish the space it currently occupies. In such cases, PBS retains the responsibility of attempting to cure the customer agency's dissatisfaction with its current space.

If the customer agency has its own leasing authority, independent of GSA, then PBS must accept the return of the space.

Procedures for the Return of Space

Before the end of the four-month-notice period, agencies returning space must pay PBS the principal balance remaining (if any) on any tenant improvements.

If the customer agency received free Rent or any other concession taken at occupancy inception in federally owned or leased space, the value of the concession attributable to the remaining term must also be repaid by the customer agency. (See the Rent Concession discussion in Chapter 3.) Free Rent and other concessions should be clearly outlined in the OA.

Defining a “Marketable Block” of Space

Given that in real estate each parcel is different than the next, it is not possible to write a rigid standard for what constitutes a marketable block of space. Many factors are involved and dependent upon the specifics of the case. Guidance with examples is provided as opposed to a strict definition.

Location

A block of space is considered marketable if PBS can sublease or out lease the space to a private sector tenant or assign it to a federal customer agency. It cannot be space located within the customer agency's security perimeter, as this poses accessibility issues.

Size of Space

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 should be considered unmarketable if:

- A customer agency wants to return a single office bordering on the common corridor, which has no perimeter exposure.
- A customer agency wants to return a series of individual offices located all over the building.

However, offices consolidated into suites would be considered marketable.

Predominate Real Estate Use

Non-conformity with the predominate real estate use pattern is another factor of marketability. The use within a given building is a factor in its marketability. For example, a single federal tenant in an office building, leasing multiple floors of office space and basement storage space and a mail room adjacent to the loading dock, cannot return the basement and loading dock space. Given their uses, the basement and storage space and mailroom are only marketable to tenants in this particular building. There is no other federal tenant within the building to offer the space to.

If we altered the scenario to a multi-tenanted federal building, then basement storage space surrendered by one customer agency would be marketable to the other agencies in the building, and PBS should accept the space on four months' notice.

Remaining Lease Term

A short firm term remaining on a lease *may* render space unmarketable, but this criterion alone is typically *not* a valid reason for PBS to reject a termination notice. The space could fulfill a temporary need, such as a task force. PBS can also usually extend the firm term of a lease to accommodate the term requirements of a backfill tenant (although the *Competition in Contracting Act* requires justification for such an action).

In summary, space is marketable if it has the following characteristics:

- Good accessibility.
- Conformity with the surrounding predominant real estate use pattern.
- Can be consolidated into one or more usable blocks.

Return of Non-Cancelable Space

Even though a space may be designated as "non-cancelable," agencies may nonetheless look to PBS to find a backfill tenant for the space. Because the space is designated "non-cancelable", the agency may vacate and return the space to PBS, but PBS will not relieve the agency of the obligation to pay serviced shell rent (including operating costs), the annual amortized cost for tenant improvements, joint use charges, security, and the GSA fee (if the space is leased). These charges will only be removed if PBS finds a backfill tenant, and then only to the degree to which the backfill tenant's Rent covers the Rent obligation of the vacating agency, net of the tenant improvements provided to the backfill tenant, and net of GSA's fee. During the vacancy period, it may be possible to reduce rent for operating expenses. PBS will add the space to its vacant space lists so that if a backfill candidate is found, the agency's Rent losses can be mitigated.

Agency Lump Sum Options for Tenant Improvements and Rent

One of the ways in which New Pricing was expected to afford customer agencies flexibility was by offering a variety of lump sum payment features. When New Pricing was first introduced, customer agencies were offered the choice to buy down the TI amount that PBS would normally amortize over the OA term and even buy down the basic (serviced shell) rent. Customer agencies also had the opportunity at any time during the term of the OA to make a lump sum payment toward the remaining balance of tenant improvements and thereby lower future year TI payments.

Some of the pre-payment flexibility that PBS sought through its new pricing policies rose legal, policy, and accounting objections. Consequently, pricing policy in this area has been modified in the following ways:

- OMB directed GSA to ban the practice of allowing agencies in mid-occupancy term to make lump sum payments for tenant improvements already being amortized. This practice allowed customer agencies to use end-of-year money to reduce future Rent obligations. OMB did not want GSA to enable this activity. PBS also came to regard this policy as problematic since it was rarely able to effect commensurate pay down with the lessor. Since PBS usually cannot buy down improvements with the lessor, the direct parity between what PBS bills the client and what PBS pays the lessor is lost.
- The Office of Finance and the Office of General Counsel objected to PBS accepting lump sum payments to defray future year ordinary rent obligations, since these constitute pre-payment of Rent. Most agencies are barred by fiscal regulation from using current year funds to meet a future year's obligation.
- The Office of Finance and the Office of General Counsel have also pointed out that agencies cannot provide lump sum funding to defray the cost of capital expenses that are inherently PBS's to shoulder. To do so would constitute an unauthorized augmentation of PBS's appropriation. This means that PBS cannot accept lump sum payments from agencies for building shell elements, or for tenant general allowance in new space. Agencies can buy down their customization tiers and they can pay lump sum for enhancements to building shell since these enhancements are by definition, tenant improvements.

Restrictions of Rent Buy-Downs

These objections resulted in the following change to PBS pricing policy, restricting in two ways agencies' ability to buy down rent by lump sum payment.

- First, the payment can only be for tenant improvements. PBS already requires agencies to pay lump sum for the cost of any tenant improvements above the TI allowance, but they retain the choice of paying an additional lump sum amount if they are an agency assigned to a customization tier. In such cases, they can buy down the customization component of their tenant allowance to the level of the general allowance. In "relet" or "second generation" space, where tenant improvements already exist, the customer agency may waive all or part of the general allowance and make a lump sum payment to modify or customize the space to its own needs if the tenant will reuse any or all of existing improvements.
- Secondly, PBS can only accept lump sum payments on four occasions as outlined in the following table:

Timing of Lump Sum Payment	Payment Method
At assignment inception, PBS can use the lump sum to pay the lessor, in the case of leased space, or the PBS construction contractor in federally owned space, for the cost of the TIs.	1. Above the Allowance – RWA 2. Below the Customization Tier, but Above the General Allowance – STAR; 3. In the case of relet or "second generation" space, any part of the allowance –RWA
At the time an agency exercises its right to relinquish space back to PBS. Policy requires a lump sum amount equal to the outstanding balance on the tenant improvements that PBS has been amortizing in the Rent.	Rent through STAR
At any time during the OA term in which the agency wants reimbursable space changes. PBS continues to require agencies to fund, in full and in advance, the cost of space changes to an existing assignment.	RWA
When an expanding agency displaces another agency. The forcing agency is required to pay PBS for the unamortized balance of the tenant improvements of the displaced agency.	Rent through STAR

Certain lump sum payments must be made through STAR rather than by RWA. This is necessary because the 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 appropriations. Simply put, any expense that PBS would normally cover from appropriated funds is paid for by agencies through Rent; any expense for which PBS did not budget (e.g., above the allowance limit) is paid for by agencies through RWA.

Consequently, the lump sum payments to buy down the Rent below a bureau's customization tier must be credited to the Federal Buildings Fund. With newly leased space, PBS expects to amortize in the lease these costs up to the allowance limit, and pass through the periodic payments to the customer agency. But, if the customer 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 will pay the lessor from the BA 53 account. PBS then has an offsetting receipt from the customer agency. Agencies are billed through STAR.

As of fiscal year 2001 PBS has secured authority to make lump sum payments for tenant improvements in leased space with BA 53 funds. This can only be done at lease inception and when the 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 tenant improvements for all situations in which the tenant pays by lump sum. This will allow tenant agencies to avoid amortization costs and thereby render lower periodic Rent payments for tenant improvements.

Delegations

PBS in the past has made three types of delegations to client agencies:

Federally-Owned Buildings

Operations and maintenance responsibility

Leased Buildings

Administrative Contracting Officer (ACO)

Contracting Officer Representative (COR)

This Desk Guide formally eliminates the discounted fee that PBS charged delegated agencies operating leased buildings. Beginning with fiscal year 2002, all leases—whether delegated or not—will be charged the flat 8 percent Lease Fee, unless:

- There is already an OA in place for that leased assignment, in which case the fee will be in accordance with the OA.
- It is a Portfolio lease (see Chapter 7).

Rent Appeals

PBS anticipates that the use of an OA at the start of all space assignments will substantially reduce the conditions that give rise to Rent appeals. Nonetheless, agencies have both an informal and formal process to appeal Rents or challenge assignment elements (building-level classifications, space measurement, building-specific security charges, service levels) that have bearing upon Rent numbers.

Informal Process

Customer agency requests that a PBS regional office review and/or explain the basis of a Rent charge for a specific space assignment.

Formal Process

Customer agency directs a written appeal, with supporting documentation, for a specific space assignment to the appropriate Regional Administrator.

Appeals are governed by the following conditions:

- Rates to which an agency agreed in an OA cannot be appealed.
- **Leased Space.** Underlying lease contract cannot be appealed. Additional services outside the lease, procured by PBS and passed through to the customer agency, such as utility charges or custodial services, also cannot be appealed.
- **Federally Owned Space.** Appeals of shell Rents are valid only if the shell Rent assessed by PBS exceeds the comparable commercial square foot rate by at least 20 percent. It is the customer agency's responsibility to provide evidence from at least three comparable locations, demonstrating that the market value differs from the assessed charge. These comparable locations must be for space in similar sized blocks and for transactions completed at a similar point in time to the shell rent determination.

The Regional Administrator decides on the merits of the appeal and notifies the client agency in writing. Customer agency headquarters-level officials have the right to appeal this decision to the PBS Commissioner. If the agency is denied at this level, customer agency head may further appeal the case to the Administrator. Decisions by the Administrator are final.

Chapter 7: Special Case Pricing

There are four types of space transactions that are exceptions to generic pricing policy. These are: portfolio leases; return on investment (ROI); congressional offices; and antenna site pricing.

7.1 Portfolio Leases

Portfolio leases are long term or “master” leases, usually negotiated for several agencies each with different term requirements from the underlying PBS lease. Examples include government services stores or telecommuting centers.

Portfolio leases may house a single agency, but the lease contract entails responsibilities for PBS that mimic an ownership position, or equity rights, even though no equity interest or ownership liability exists. An example of this type of portfolio lease is a lease with a favorable long-term renewal option or options that would require substantial capital outlays by PBS to improve the building infrastructure.

Pricing Portfolio Leases

PBS assumes either risks or capital expenditures for portfolio leases that exceed the conventions of single transactions or occupancies. Because of this additional risk, we do not simply pass through to customer agency(ies) the underlying contract Rent. PBS treats portfolio leases as owned space and sets Rent through appraisals.

For new actions, PBS should know whether it is dealing with a portfolio lease well before the lease contract is signed. Generally, this is because PBS can identify in advance of lease execution if it is entering into speculative risk – leasing more square footage than we have immediate need for, or assuming some form of risk normally associated with ownership, such as repair, replacement, and maintenance of base building equipment, systems, or elements.

Triple Net Leases

Leases in which PBS takes on repair and replacement responsibility for building systems (e.g., roof, HVAC, windows, etc) are portfolio leases. These are often called *triple-net leases*. These types of portfolio leases are unusual in the PBS inventory because they typically score as capital leases; nonetheless, PBS has several in the inventory which pre-date the on-set of scoring.

What a Portfolio Leases is Not

When discussing what a portfolio lease is, it is helpful to understand what a portfolio lease is not. The following are examples of what a portfolio lease is NOT.

- PBS lease net of operating services and taxes, often called a net or double-net lease.
- A conventional, full-service lease in which PBS negotiated an extremely favorable rental rate. If negotiating skills or a soft market result in a significantly discounted Rent rate, PBS may not claim the favorable rate and charge the end-user agency some other rate. The PBS mission in leased space is to secure the most cost-effective rents for our clients and pass the savings along to them. This is what the GSA advantage is all about. Moreover, if we wanted to claim the good deals for PBS, then our clients would, by the same token, have us absorb the deals with unfavorable rates.

- Any lease after the initial tenant has returned all or part of its occupancy. Calling any lease a "portfolio lease" after the original tenant departs jeopardizes the rationale underlying the concept of the contract risk fee since this fee is supposed to, among other things, compensate for vacancy risk. Charging more than the underlying lease contract rent to a backfill tenant would make any part of the leased inventory a potential net income generator and a portfolio lease. This could confuse and create a backlash about the contract risk fee. If PBS took the space into the portfolio as a conventional lease to begin with, it was taken knowing full well we had the vacancy risk. If the vacancy eventuates, PBS does not have the right to redefine the asset in our portfolio. The risk existed all along, first as a potentiality and later as an actuality. Vacancy alone does not warrant conversion to the portfolio lease category.
- Non-Market Steps or Tiers - An example of this type of lease is a 15-year lease with level Rent of \$25.00 per square foot for the first 7.5 years, decreasing to \$15.00 per square foot for the last 7.5 years. Lease rental rate structures with steep steps or tiers (or that in other ways create long periods in which the rents are non-market) do not represent risk to PBS if they are passed through to the customer agency. This structure does not in itself make a lease a portfolio lease. PBS can smooth out the non-market bumps in establishing the rental rates charged to customer agencies. This lease structure is to be avoided, and where it cannot be avoided, PBS can intercede and smooth out the steps and develop a more moderated escalating Rent structure in terms of the pricing to the customer agency, which is still the present value equivalent of the underlying lease contract.

Return on Investment Pricing

Return on Investment (ROI) pricing is a secondary means of pricing space in the PBS-owned inventory. It is only to be used when PBS is expending capital to construct, modernize, or completely rehabilitate a building and either of the following conditions is met.

Condition One:

- An appraisal-generated rental rate, based upon market comparables, does not provide for a fair return on PBS's capital investment. A hurdle analysis is conducted to determine if the appraisal-based rent meets PBS's minimum return objectives. The hurdle analysis is conducted as follows:
 - Take the first year's minimum Rent (i.e., the Rent net of taxes and operating expenses).
 - Divide by the total capital investment less the capital security improvement costs considered under the Building Specific Security Charge.
 - If the quotient is less than the hurdle rate, then the appraised rental rate does not constitute a fair return on investment.

The current hurdle rate is 6 percent; the Central Office of Portfolio Management will adjust this rate as necessary.

Condition Two:

- It is infeasible or impractical to appraise the fair annual Rent because there are few or no market comparables upon which to base a market rate. Lack of comparables may be due to remoteness of location or to special features of construction and use that significantly depart from conventional real estate use patterns.

The decision to go with ROI pricing can only be made when PBS is either constructing a new building or completely renovating an existing building. PBS cannot switch back and forth between an appraisal-based pricing approach and ROI pricing. The decision is analogous to that of a developer proceeding with a build-to-suit project—moreover, in a weak market for rents— for a tenant with a long term-need. By agreeing to meet the developer's minimum return requirements on capital, the tenant has the benefit, over the long occupancy term, of a predictable real estate rent.

Rent Attributable to Shell

ROI pricing is used to set shell Rent only. Shell Rent, for ROI properties, is comprised of 1) a return on shell improvements (structures or buildings constructed upon the land are called “improvements” because they “improve” the value of the real estate) and 2) a return on land.

Rent on Shell Improvements

The following formula is used to compute the portion of shell Rent for the improvements:

- Compute the total cost to design and construct building shell (including management and inspection). If applicable, the cost of capital security items such as progressive collapse, blast mitigation and window glazing should be excluded. Capital security items are separately billed as building specific amortized capital security charges.
- Amortize this amount over 25 years at the rate equal to the OMB discount rate plus 2 percent.

All hard and soft costs are to be included in the computation of the investment base, including feasibility studies, public hearings, and environmental studies.

Twenty-five years is the default setting for ROI pricing, but it can be overridden with approval of the Regional Portfolio Manager. Amortization periods should not, generally, exceed 30 years—the outer boundary of the “useful life” convention for capital improvements. Conversely, they typically should not be less than 20 years.

The Rent attributable to shell improvements is set for the entire 25- or 30-year term; it is not reset every five years as with conventional, appraised owned space. If new capital repairs, replacements or improvements are made during the course of the initial term, then these costs must be amortized at the then OMB discount rate plus 2 percent, over the appropriate useful life of the new improvements. In many cases, this amortization term will extend beyond the remaining term of initial or current OA term. For the period of the overlap, the new amortized cost is added to the existing shell Rent.

Rent Attributable to Land

To the above computation add the following:

- The fair market value of the land multiplied by the OMB discount rate plus 2 percent.

In the case of land, the Rent calculation is a straight return on value, rather than an amortization because land does not depreciate. In the case of Border Stations only, PBS has agreed not to charge for donated land.

The total ROI component of the Rent is the sum of the Rent on shell improvements plus the Rent on land. The total Rent the customer agency will pay includes the ROI component of the Rent, plus the other components of new pricing – TIs, cost of services, security, and joint use.

Amortization of Tenant Build-Out

Tenant improvements up to the allowance limits (general and customization, benchmarks, or as set by the Asset Manager) are to be amortized on the basis of actual cost and for standard terms of 10 years, expandable to 20 years or greater with the approval of the Regional Portfolio Manager. The amortization rate is the same as that used for shell improvements: the OMB discount rate plus 2 percent. (Note: This is different than the rate for amortization of tenant improvements in non-ROI priced owned space.)

Cost of Services

The cost of services has two components:

- Actual building operating expenses. (Because of the need to reconcile end-year costs with RentEst, there is a running two-year lag between actual operating expenses and current-year billing).
- Allocation of Overhead (General Management and Administrative (GM&A) and General Administrative (G&A) Expense. This allocation varies by region, due to differences in the regional formulas for distributing overhead costs to buildings. The allocation is necessary because PBS does not distribute home office, field and regional staff costs to buildings. Rather, these costs are aggregated into general overhead accounts and distributed over the entire inventory.

Alternative basis for services:

With the consent of the tenant agencies, and if an appraisal exists, then as an alternative to the direct pass-through of operating costs, with overhead, PBS may set the operating expense component on the basis of an appraisal. (The appraisal-generated minimum rent may not have met the PBS hurdle rate test, but the appraisal's operating expenses may still constitute a legitimate-approximation of the market charges for these services.) PBS is not to use the GM&A number from the cost approach above. Commencing with the fiscal year 2004 Rent Appraisal Instructions, PBS adopted the BOMA operating expense components, which includes consideration for administrative expenses.⁵

Cost of Security

This cost consists of both the basic security charge and well as any building-specific operating and amortized capital costs. Basic and Building Specific security charges are determined in accordance with Section 3.2.6 Security Charges.

⁵The BOMA Experience Exchange Report provides the following definition for "administrative expenses:" Expenses directly connected with administration of a building including: payroll, taxes and fringe benefits for directly employed administrative personnel; management fees; professional fees (such as legal fees, accounting, data processing, engineering consulting and auditing); and general expenses of running and maintaining the Office of Buildings Management (such as supplies, furniture, telephone, temporary help and postage).

Joint Use Space

Joint use Rent must be apportioned among client agencies on the basis of space assigned.

ROI properties have no tenant charges for parking, antenna sites, or other ancillary spaces (i.e., ware yards, boat docks, etc.) since customer agencies have agreed to Rent payments that attain PBS' minimum return for the capital invested. It is inappropriate for PBS to seek additional Rent for ancillary items entailing no additional PBS capital outlays, especially when clients sign a long-term OA pledging a full return of the PBS investment with interest.

ROI properties are not automatically categorized as non-cancelable space. In the case of Border Stations, due to location alone, most space will be non-cancelable, but in the case of many courthouses, the space has good federal tenant backfill potential.

Treatment of Vacancy, PBS-Support Space, Out lease and Backfill Space under ROI Pricing

The total of each component of Rent is to be distributed among the customer agencies. Vacancy (if any) and building support space assigned to PBS should be excluded from the formula that distributes all Rents. As to vacancy in Border Stations in particular, each customer agency is to be advised, via the OA, that the space is non-cancelable, and Rent charges apply whether or not the agency occupies, unless PBS can find a backfill tenant. If an out lease eventuates in an ROI property, do not disturb the existing distribution of costs, but rather credit the customer agencies for whatever the out lease rent, contributes to the property.

Backfill occupancies by federal tenants in ROI properties need not conform to ROI pricing; these occupancies are to be priced in accordance with the guidance given for backfill occupancies in Chapter 4. In cases in which the original customer agencies signed OAs designating the space as non-cancelable, the Rent changes for these original tenants shall only be reduced, in the event of a backfill, by the value of the backfill Rent, net of TIs. Since the backfill tenant's Rent may be less than the initial ROI Rent, the initial tenant may still have an ongoing Rent obligation to PBS for the space.

Graduated Payments

ROI pricing is based upon a specific minimum return in the first year of occupancy; it is nonetheless acceptable to establish stepped or graduated Rents for building shell and land, rather than using a flat payment over 25 years. Such graduated Rents should be set to achieve the same net present value return to PBS as if the payments were constant and unchanging.

Rent After Initial OA Term

The term set in OAs for ROI properties should be equal to the term of the shell amortization. This follows the principle, discussed in Chapter 2, that an amortization's duration should never exceed the OA's term.

When the initial OA term expires for ROI-priced property, prepare new 20-year-term occupancy agreements with the tenants, and price the succeeding term as follows:

- Determine the Functional Replacement Value (FRV) of the improvements. (The FRV is equivalent to the cost to construct new; it should not be adjusted downward for accrued depreciation.)

- Deduct from the FRV, the value (balance on the principal outstanding) of all improvements that are still being amortized.
- Take 50 percent of the result.
- Multiply this value by the OMB discount rate plus 2 percent
- Add back in the amortization schedules still running.

This constitutes the new ROI Rent for all improvements (shell and TIs). To this will be added the return on land (revalued at the beginning of this second stage of ROI pricing), the cost of operating services, and the cost of security.

The determination of the FRV should only be re-assessed every 20 years. Unlike conventionally-priced, owned buildings, which are re-appraised every five years, the 50 percent Rent on the Functional Replacement Value is to be a durable, long-term agreement as to Rent. As new capital improvements are made, the full cost—before amortization begins—is to be deducted from the FRV, then the 50 percent calculation made, and then the amortization term set to run for the useful life of the improvement (not to exceed 30 years). The FRV is entirely supplanted when the value of any new capital improvements, combined with the principal balance on other improvements still being amortized, equals or is greater than the FRV. If and when this happens, the property has effectively reverted back to the first stage of ROI-pricing, although in this case, different amortization schedules are running concurrently.

Application of ROI Pricing

OMB must approve Rents based on ROI for specific projects. Also, GSA must secure the written consent of the affected agency(ies) before seeking OMB approval.

For seasoned Border Stations, conversion to ROI pricing may effectively entail immediate use of the Functional Replacement Value phase, although in order to add the amortization of any recent improvements funded by PBS that have not yet been fully depreciated, good cost records are needed.

For new ROI projects, Regions must submit the proposed shell rates based on ROI to the Central Office, along with signed OA's or other documentary evidence of client consent. This information must be submitted in time for PBS's annual agency budget submission (RentEst) to OMB governing the fiscal year in which the ROI rate will take effect. Therefore, proposed ROI rates must be submitted to the Office of the Chief Financial Officer with the appraised rates established by the regions for federal buildings no later than December 15, two years prior to the effective date. The Office of Portfolio Management issues instructions for preparation and submission of appraisal reports annually three months prior to the RentEst deadline.

When outleasing ROI properties, always base the rental rate at comparable rates for your market area, not the ROI.

United States Postal Service

PBS and the United States Postal Service (USPS) are both tenant and landlord to each other. A 1986 Memorandum of Understanding (MOU) has governed this relationship. Since New Pricing, many items in the MOU no longer apply. PBS and the Postal Service are negotiating a new MOU. In the interim, PBS pricing policy is to recognize the following:

- When the Postal Service is a tenant in PBS-controlled space, all pricing policies apply.
- When USPS is the property owner:
 - PBS will treat the Postal Service space as analogous to leased space for pricing purposes and pass through Rent charges to the end user.
- Three parties will sign each OA in USPS space: USPS, PBS, and the tenant agency.

The OAs will provide that:

- USPS will honor the tenant allowance requirements of PBS clients
 - The tenant agency will have a four-month cancellation right, with liability for only the unamortized balance of the tenant improvements.
 - PBS will apply a fee of 4 percent, since contract risk is not present.
- When USPS is the property owner:
 - If USPS is the service provider for security, USPS security charges will apply, and GSA will not charge for basic security. (USPS security costs must be entered as Building Specific-Operations. All of the Building Specific-Operations rent will be transferred to USPS.)
 - If GSA is the service provider for security, GSA's pricing policy will apply. (All security costs must be entered into STAR as Basic Security or Building Specific-Capital. If the costs are entered as Building Specific-Operations, the rent will be transferred to USPS.)

Congressional District Offices

US Senate Pricing

Presently a Memorandum of Understanding between GSA and the US Senate governs the space assignment of Senate offices. The provisions in the MOU do not clash with PBS pricing policy, except in three respects:

- US Senate assignments are not charged for the amortization of their TIs.
- The PBS fee of 8 percent is not applied to US Senate offices in leased space.
- US Senators are still entitled to cyclic paint and carpeting without additional charge.

PBS is seeking to negotiate with the US Senate Sergeant at Arms to remove these exceptions, but until the Memorandum of Understanding is amended, PBS will honor the exceptions.

Further, by law, each Senator may not exceed a certain square footage, expressed in occupiable terms. Since PBS has adopted the ANSI/BOMA method of measurement, which gives assignments in rentable and usable terms, each Senate CBR must contain, "For purposes of public law 99-88, the square footage of this assignment is xxx." PBS has agreed not to alter the square footage without prior approval of the Sergeant At Arms.

House of Representatives

All elements of PBS pricing policy apply to members of the House. Although members' terms are for two years, PBS amortizes tenant improvements for new members' offices over a six-year term. A six-year amortization for representatives' offices creates the opportunity for parity with the Senate, if and when PBS is able to bring the Senate into full alignment with its pricing policy. In the event that a House member is not re-elected and must vacate the space assigned before the sixth year, PBS will make no attempt to collect the unamortized balance on the tenant improvements. This loss will be written off as a cost of business.

In terms of billing, our agreement with the House requires that PBS keep office space and parking charges on a separate CBR distinct from a CBR recording any other space uses: warehouse, conference rooms, private toilets, joint use charges. In such cases, one CBR addresses the office space and parking spaces, with their attendant fees (security and lease fee, if applicable) while a second CBR must be prepared for all other space uses and related charges and fees. The separate CBRs allow the House to distinguish between individual members' charges and those covered by the House itself.

Antenna Site Pricing

Antenna Definition

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

- PBS pricing policy is to apply commercially equivalent rent charges for antenna sites where possible. Antenna site rents are to be set for five year terms, with no escalation in the rate during the intervening years. In this regard, antenna site rents are much like unserviced shell rents for owned space. From time to time, but no less frequently than every five years, the Central Office of Portfolio Management will commission a study to establish a table of rental values for antenna sites. This table can be used for antennas that are located in areas without readily available market data. The purpose of the table is to provide estimates of the acceptable rent rates for antennas where local market rates are difficult to discern or where the region considers the value of the antenna rent to be too modest to justify the appraisal.

The tables are not required, and in areas that have local markets for antenna rent costs, the rents for antennas on GSA buildings should be based on local market rates. Regions have the discretion of using that table of values to price their antenna sites, or, if they believe that conditions support an individual appraisal of select sites, they may use an appraisal to establish the rental values. PBS will not charge for antennas on leased properties, unless the lessor is charging PBS, in which case, the lease charge is passed through to the customer agency.

Emergencies

8 Percent Fee

PBS charges a fixed 8% fee for all leases that enter its portfolio, even short-term leases that PBS signs in response to disasters. When PBS signs a lease it incurs the contract risk and therefore charges the 8 percent fee, even if the agency pays the lessor directly. However, if PBS signs the lease and immediately assigns the contract to another agency, then the lease does not enter the PBS portfolio and is outside the PBS pricing policy. Any services, such as brokerage, that PBS provides in these cases are compensated on a reimbursable basis. Since Realty Specialists do not typically track their time against projects, a reasonable way to charge for PBS services is to apply a broker fee that is based on market practice.

Emergency Relocations

As part of the PBS guarantee to provide space, PBS cannot refuse to find federal agencies new space on an immediate, provisional basis, if the customer agency is forced to vacate its assigned space by natural or man-made disaster or emergency. PBS will undertake to acquire space as quickly as possible and work with FTS and FSS—to acquire furniture, phones, and computers.

If the space is provisional, PBS will seek no change in Rent or any additional fee for its services. If the customer agency will never return to its original space, PBS will seek new space to house the customer agency with a new OA tailored to the new assignment. Agencies in this situation do not pay for any unamortized tenant improvement costs at the vacated location.

Occupancy Agreement Standard Clauses

1. Multi-year Funding Obligations of Tenant.

While this occupancy agreement (OA) addresses financial terms that cover multiple fiscal years, the parties agree that:

a) If PBS has not designated the space governed by this OA as non-cancelable, then the tenant agency has the right to relinquish the space upon four months' notice. Thus, at any future time, the tenant agency's financial obligation can be reduced to four months' of Rent, plus the unamortized balance (if any) on any tenant improvements financed through PBS, plus any Rent concession not yet earned.

b) If PBS has designated the space governed by this OA as non-cancelable, then in the event the tenant agency vacates before this OA expires, the tenant agency remains responsible for Rent to PBS. PBS may be able to lessen this obligation by reducing operating expenses for the space or by finding a backfill tenant. Moreover, the tenant's financial obligations for years beyond the current year do not mature until the later year(s) are reached. Thus there is no requirement that the tenant agency certify that current year funds are available to defray future year obligations.

c) For both cancelable and non-cancelable space, the tenant's future years' obligation to pay Rent is subject to the availability of funds, but the tenant agrees to make a good faith effort to meet its obligations as they arise.

2. Separate Funding for Shell and Tenant Improvements.

In the case of federal construction, the parties agree that PBS is responsible for providing the funds necessary to acquire land (if appropriate); design and construct the building shell; and fund the tenant agency's tenant improvement allowance. The tenant agency is responsible for any tenant improvement costs in excess of the tenant improvement allowance. The parties further agree that savings or cost over-runs on the acquisition of land or the design and construction of building shell will not result in increases or decreases in the tenant allowance amount, except in the case of prospectus level projects, where bids for the construction of the shell are over the approved budget. In this case, it is permissible to lower the tenant allowance in order to increase the shell budget, but only with approval of the tenant.

The tenant agency can appeal to the PBS asset manager in cases in which the agency's assigned tenant improvement allowance (set either as the sum of the general and customization components, or in accordance with benchmarks or other programming documents) is inadequate to provide basic functionality for the space.

3. Space Relinquishment Rights and Obligations.

The parties agree that, in the event the tenant agency exercises its right ¹ to relinquish all or part of the space on four months' notice, any free Rent or other concession given at the beginning of the occupancy term must be allocated on a pro-rata basis over the entire OA term, and the unearned balance repaid to PBS. In addition, the tenant agency must reimburse PBS for the principal balance remaining on any tenant improvements that PBS was amortizing in the Rent.

¹The right to relinquish space upon four month's notice is not available for non-cancelable space.

4) Operating Services.

If this OA governs an assignment in leased space, the building services to be provided to the tenant agency for the operating expense portion of the Rent are specified in the PBS Solicitation for Offers (SFO) that is made part of the lease contract. A copy of the lease contract is provided to the tenant agency. If this OA governs an assignment in owned space, the building services to be provided are outlined in the PBS Real Property Customer Guide. Additional or upgraded services beyond those identified in the sources cited above are provided by PBS or the lessor on a reimbursable basis.

5) Rents and Fees.

If this OA governs an assignment in leased space, the underlying lease contract Rent will be passed through to the tenant agency. For a non fully-serviced lease, the cost of operating services not covered by the lease will also be passed through to the tenant agency. The PBS fee in leased space, calculated at 8 percent of the annual lease contract cost plus the cost of separately contracted operating services, will also apply. Charges for security and GSA-installed improvements may apply as well.

If this OA governs an assignment in owned space, annual rental charges will consist of a shell rent plus amortized tenant improvements, if applicable. There are additional charges in owned space for operating expenses and security, and in some cases, for joint use, parking, and other miscellaneous items such as antenna sites.

Regardless of the OA term, in the case of owned space, the shell rate or "as is" rate is set for periods up to but not beyond five years. For OAs in owned space with terms beyond five years, the shell or "as is" rent will be re-appraised every five years. In the case of owned buildings priced on a "Return on Investment" approach, shell rents will be locked for the duration of the OA. Charges for operating expenses, joint use space, parking, security, and real estate taxes (in leased space) may be adjusted on an annual basis.

6.) Space Acceptance.

The tenant agency's obligation to pay Rent for the space governed by this OA commences upon the date the space is ready for occupancy, typically the substantial completion date. Substantial completion is signaled in the case of leased space by the granting of an occupancy permit, or in the case of owned space, by PBS acceptance of the space as substantially complete.

7) Consequences of Delay.

In the event the space covered by this OA involves a tenant agency move, once a design and construction rider or schedule has been made part of a lease contract, or in the case of owned space, once a design and construction schedule has been established, the rider/schedule must be incorporated into this OA. Once part of this OA, the schedule/rider becomes binding upon the tenant agency as well as upon PBS.

Delay or increased costs caused by either a) tenant agency failure to meet the review and approval times provided in the lease rider or construction schedule, or b) tenant changes to project scope, will be borne by the tenant agency. As a consequence of tenant-caused delay,

PBS or the lessor may decline to postpone the scheduled substantial completion date (thereby advancing Rent commencement for the space) by the duration of the tenant-caused delay, on a day to day basis; this may result in rent charges at two locations simultaneously for the tenant. Additional direct expenses caused through tenant-caused delay or changes in project scope are chargeable against the tenant allowance; in the event the tenant allowance has been exhausted, the tenant must pay the lump sum costs by RWA.

In its role as building owner, or as tenant representative in the case of leased space, PBS may also be the cause of delay. Expenses associated with PBS-caused delay incurred by the tenant, for such things as additional storage time for furniture, re-procurement expense, or additional consulting fees, will be the funding responsibility of PBS. In the case of lessor-caused delay, if there is a liquidated damages clause in the lease, PBS will pursue the lessor for the value of the damages.

In the case of excusable delay (e.g., force majeure or any other delay the cause of which is beyond the reasonable control of either PBS or the tenant agency), neither PBS nor the tenant agency may pursue the other for the consequences of the delay.

8) Preliminary Occupancy Agreements.

The parties hereby agree that iterations of OAs prepared before selection of a lessor, or in the case of owned space, before completion of a building design, and before final security/joint use charges are provided contain preliminary financial terms only. Financial terms in preliminary OAs are not binding on either party; they are estimates for budgeting purposes. Accordingly, tenant agency signature on such preliminary OAs does not bind the agency to the specific financial terms in the OA; rather, execution by the tenant agency constitutes that agency's commitment to the project. Moreover, up until the time of lease award, or in the case of owned space, site purchase or contract award to a design architect, the tenant agency has the right to cancel the proposed project without financial obligation.

9) Services provided for the PBS Fee.

The services that PBS provides to its customers, whether in owned or leased space, are listed on the PBS website: www.gsa.gov/pbs/pt/opm/default.htm, or the May 2000 edition of the Pricing Desk Guide as revised. Unless PBS provides otherwise in writing, the cost of these services is included in PBS's rents and fees. Any services beyond those identified in the Pricing Desk Guide as revised are provided by PBS for an additional charge.

10) No alterations without PBS approval.

The tenant agency agrees that it will undertake no alterations to the real property governed by this OA without prior approval from PBS. Further, any alterations that might obligate PBS under a lease must be approved by the responsible PBS contracting officer.

11) Lump Sum Payments.

The parties agree that, with respect to the tenant allowance, the tenant agency must pay for tenant improvements in excess of the allowance by RWA. The tenant agency also has the right to pay lump sum for tenant improvements below the allowance threshold. The ability to make lump sum payments below the allowance threshold is only available at assignment inception, and only for the customization component of the allowance. Further, once the tenant allowance is set, PBS must bill for lump sum payments that buy down the allowance through Rent; PBS cannot accept payment below the allowance threshold by RWA.

12) Responsibility for Moving Expenses.

At the end of the OA term, if the tenant cannot remain in the space covered by this OA, the tenant is responsible for funding the physical move to new space. In the event PBS displaces or allows another user to displace the tenant before the expiration of the OA term, PBS must fund, or require the new user to fund, the tenant's physical move, and relocation of tenant's telecommunications equipment. PBS must also reimburse, or require the new user to reimburse, the tenant for the undepreciated value of any lump sum payments the tenant made toward tenant improvements and the Rent differential at the new location until the displaced agency has time to budget. The Rent differential is calculated on all elements of Rent except the amortized tenant improvement cost.

13) Funding Responsibility for Tenant Improvements.

The parties agree that, in the case of owned space, PBS is amortizing through a specific charge in Rent the portion of the tenant improvement allowance the tenant elects to use. The tenant has funding responsibility for replacement, renewal, or alteration of tenant improvements. PBS is responsible for replacement and renewal of all building shell elements in owned space; lessors bear this responsibility in leased space. In leased space, PBS will oblige the lessor to fund cyclic paint and carpeting within the tenant's space, as provided in the lease contract.

Sample Bill For Owned Space

GSA Public Buildings Service Bill for Space and Services for:

Agency: 00 ANY AGENCY
 Bureau: 0000 ANY BUREAU
 Real Property ID: AB0000

Bill For: FEBRUARY 2000

Account Code: 00000001
 Bill No: 00000000
 OA Number: ABC00000

Region: 00
 CBR: AB0000000

ANY BUILDING
 ANY ADDRESS
 9TH FLOOR
 ANY CITY, AT 00000-0000
 GSA Contact: REALTY.SPECIALIST@GSA.GOV

Tel: 123-456-7890
 Page Number: 553

	Charge Basis	Annual Rate	Amount Due (Monthly)	Year To Date
1. Shell Rental Rate				
a. General	57,303	\$18.88	\$90,147	\$450,735
2. Amortized Tenant Improvement Used / General	57,303	\$2.85	\$13,589	\$67,947
3. Operating Costs	57,303	\$5.66	\$27,019	\$135,096
A. Market Rent SubTotal	57,303	\$27.38	\$130,756	\$653,778
5. Amortized Tenant Improvement Used / Customization	57,303	\$0.28	\$1,353	\$6,765
7. Security Services				
a. Basic Charges	60,564	\$0.12	\$606	\$3,028
c. Building Specific Operating	60,564	\$1.15	\$5,800	\$29,000
9. Parking				
a. Structured (number of spaces)	10	\$4,320.00	\$3,600	\$18,000
b. Surface (number of spaces)	1	\$2,650.00	\$221	\$1,104
B. Agency Rent SubTotal			\$11,579	\$57,897
12. Pro Rata Joint Use Charges				
a. Building Amenities	3,261	\$33.25	\$9,035	\$45,173
b. Structured Parking	0.22	\$4,309.09	\$79	\$396
C. Joint Use SubTotal			\$9,114	\$45,570
D. Total Monthly Rental (A+B+C)			\$151,449	\$757,245
14. Billing Adjustments & Corrections				
e. Trust Fund Agency Adjustment	50%		(\$75,724)	(\$378,622)
E. SubTotal Billing Period Adjustments			(\$75,724)	(\$378,622)
F. Total Bill (D+E)			\$75,724	\$378,622

Note: ANSI Rentable is 42,606 Assigned Usable Space PLUS 14,697 Common Space.
 R/U Factor is 1.34495. Security Space incl. ANSI Rentable PLUS Joint Use Rentable.

Back of Rent Bill

Header

Agency: occupying agency name.

Bureau: occupying bureau name.

Real Property Identifier: unique number identifying properties and facilities for whom the occupying agency is being billed.

Region: GSA region which has responsibility for this billing assignment.

CBR No: unique number that identifies each client billing record.

Bill for: month and year for which bill charges apply.

Client: the occupying agency/bureau activity.

Building Name

Address Line 1: building address.

Address Line 2: building address.

City, State, Zip Code

GSA Contact: GSA support contact name and e-mail address.

Account Code: for On-line Payment and Collection (OPAC) agencies, the Department of Treasury number identifying the account of the agency from which the GSA rent charges are drawn. For Billed Office Address Code (BOAC) agencies, the station symbol for the manual production of bills.

Bill Number: unique number identifying the bill for reference purposes.

OA Number: unique number identifying the occupancy agreement, or the assignment number, if no occupancy agreement exists.

Tel: GSA support contact telephone number.

Body of Bill

1. Shell Rental Rate: this is the amount of payment due for occupancy of the building shell. The building shell is a structure in which the house systems are present and operational; however, only perimeter walls are present. It does not include services or alterations. The shell rental rate reflects the amount stated in the occupancy agreement.

a. Space Type: predominate use of building or lease. There are three possible space types entered on this line. 1. General use, 2. Warehouse, 3. Unique.

2. Amortized Tenant Improvement Used/General: amount of general tenant improvements provided for the tenant. This rate is the same for all agencies, is normally amortized over terms set in the occupancy agreement.

3. Operating Costs: the cost of operating a property at a standard level of service, including both the cost in the lease and any separate contract costs for providing operating services to the premises. This cost will be adjusted annually for escalation if the lease reflects that provision.

4. Real Estate Taxes: reflects real estate taxes due in the current year, based on the terms of the lease as specified in the occupancy agreement.

A. Market Rent Subtotal: this is used by agencies and others to compare with commercial rents as it is intended to reflect only market comparable standard charges and uses.

5. Amortized Tenant Improvement Used/Customization: this item is the actual cost of tenant improvements, as amortized in the lease, less the line item for Amortization of General Component of Tenant Improvement Allowance Used. It is added after market rent as it is a reflection of special needs of the agency, is not part of market comparable space and, is normally amortized over terms set in the occupancy agreement.

6. GSA-Installed Building Improvements: agency share of amortized costs for building improvements installed by GSA (e.g., Heating, Ventilation and Air Conditioning upgrades) over and above what is stated in the lease contract.

7. Security Services: charges for Federal Protective Services (FPS) (i.e., protect life and property and maintain law and order in the building).

a. Basic Charges: estimated charge for control center operations, criminal investigations, protective services, security systems.

b. Patrol & Response: charge for additional security services if the building is in a metropolitan area where this service is provided.

c. Building Specific: charges for contract guard costs and other services directly related to the building in which this occupancy agreement is effective. Includes repairing and maintaining of alarm systems and magnetometers, and other countermeasures.

d. Building Specific Amortized Capital: if installed after fiscal year 1998, amortization of capital costs for security enhancements (e.g., X-ray machines, magnetometers, and physical barriers).

8. Extra Services (+ or -): costs for extra services (e.g., 24-hour operation of a computer room) or credits for reduced services (e.g., agency performs their own cleaning).

a. Operations Delegation: amount credited to agencies with GSA-delegated authority to perform or otherwise obtain specific services generally performed under GSA control (e.g., cleaning).

9. Parking: charges for available parking, if not already included as part of Shell Rental Rate. The annual rate reflects rate per space.

a. Structured (number of spaces): number of parking spaces under cover (e.g., garage).

b. Surface (number of spaces): number of parking spaces without cover (e.g., parking lot).

10. Rent Charges for Other Space: charges for other types of space, such as warehouses, antenna locations, helipads, etc.

11. GSA Fee: amount charged to an agency to cover GSA costs associated with lease acquisition, property management services and indemnification from risks that GSA assumes, most notably the risk of vacancy.

B. Agency Rent Subtotal: Subtotal of line items 5 - 11.

12. Pro Rata Joint Use Charges: reflects the agency's proportionate share of building or facility space available for the use of all tenants. Joint-use charge is calculated based on the percentage of space the agency occupies in the building or facility compared to the total space available for occupancy on the building or facility.

a. Building Amenities: charge for joint-use space such as cafeteria, health units, etc.

b. Structured Parking: charge for spaces under cover that are available for use by all building tenants such as visitor parking.

c. Surface Parking: charge for spaces without cover that are available for use by all building tenants such as visitor parking.

C. Joint-Use Subtotal: total charges for joint-use building amenities space, and surface and structured parking.

D. Total Monthly Rent (A+B+C): total of market rent charges, agency rent charges (or credits), and joint-use space charges.

13. One-Time Payments: charge for one-time services.

14. Billing Adjustments & Corrections: modifications to the bill to either correct errors in the previous billing cycles, or to reconcile total rent billed because of rent exemptions, caps, or trust fund adjustments.

a. Current Year xx-Explanation from Table: credit or charge from billing errors that took place in the current fiscal year.

b. Prior Year xx-Explanation from Table: credit or charge from billing errors that took place in the prior fiscal year.

c. Rent Exemption Expires:xx/xx/xx: credit for agencies exempt from paying rent, and the date the exemption will expire.

d. Appropriations Law Rent Cap: credit for agencies with a cap on the amount of rent charged annually.

e. Trust Fund Agency Adjustment: credit or debit for trust fund agencies.

E. Subtotal Billing Period Adjustments: total of current and prior year credits or charges, and rent exemption, appropriations law cap and trust fund credits.

F. Total Bill (D+E): total amount billed; total monthly rent charged and total billing adjustments.

15. Comments: additional information

Sample Bill For Leased Space

GSA Public Buildings Service Bill for Space and Services for:

Agency: 00 ANY AGENCY
 Bureau: 0000 ANY BUREAU
 Real Property ID: AB0000

Bill For: FEBRUARY 2000
 ANY BUILDING
 ANY ADDRESS
 9TH FLOOR
 ANY CITY, AT 00000-0000
 GSA Contact: REALTY_SPECIALIST@GSA.GOV

Account Code: 00000001
 Bill No: 00000000
 QA Number: ABC00000

Region: 00
 CBR: AB0000000

Tel: 123-456-7890
 Page Number: 553

	Charge Basis	Annual Rate	Amount Due (Monthly)	Year To Date
1. Shell Rental Rate				
a. General	22,696	\$11.11	\$21,013	\$105,064
3. Operating Costs	22,696	\$4.21	\$7,965	\$39,307
A. Market Rent SubTotal	22,696	\$15.32	\$28,978	\$144,371
7. Security Services				
a. Basic Charges	22,696	\$0.14	\$265	\$1,324
c. Building Specific Operating	22,696	\$1.90	\$3,603	\$18,014
9. Parking				
b. Surface (number of spaces)	80	\$655.08	\$4,367	\$21,836
11. GSA Fee	22,696	\$1.24	\$2,336	\$11,680
B. Agency Rent SubTotal			\$10,571	\$52,854
C. Joint Use SubTotal			\$0	\$0
D. Total Monthly Rental (A+B+C)			\$39,549	\$197,225
E. SubTotal Billing Period Adjustments			\$0	\$0
F. Total Bill (D+E)			\$39,549	\$197,225

Note: ANSI Rentable is 20,496 Assigned Usable Space PLUS 2,200 Common Space.
 R/U Factor is 1.10734. Security Space incl. ANSI Rentable PLUS Joint Use Rentable.

General Services Administration- Public Buildings Service Pricing Crib Sheet

General

- Measurement: In accord with ANSI/BOMA. No negotiation. Past practice of adjusting the square footage to make a deal is strictly prohibited.
- In USPS space, USPS will fund TIs (both general & customization); three signatories are required for OAs; i.e., GSA, GSA's Customer, and USPS
- Remember that fairness, simplicity, and good business are the main goals in pricing.

WARNING: To use these notes effectively, you first need to read the Pricing Desk Guide!

Notes organized by the line item on the occupancy agreement or the bill:

1) Shell Rent

- Cannot buy down the shell. Lump sum payments can only be for tenant improvements, and only at assignment inception. Further, lump sum payments are required for TI costs above the allowance; they are optional for the customization component of the allowance. Lump sum payments for the general component of the allowance are prohibited. Except in the case of backfill or relet space, (leased or owned), where tenant improvements already exist and the tenant wishes to pay lump sum to modify or customize the space.

- Three occupancy conditions:

New:

- **Owned:** Use the appraisal numbers for unimproved shell. May be discounted for special circumstances, like a short-term occupancy (e.g., for space the Courts will occupy in a few years).
- **Leased:** Taken directly from the contract rent (it may be calculated if the TIs are not separately priced in the lease). Free Rent: pass free Rent through to the customer as a part of the Rent rate.

Continuing:

- **Leased:** Pass through of underlying contract rent.
- **Owned:**
 - Use appraised "as is" value without deviation; policy is there is no difference in price for elevation, view, proximity to amenities.
 - No discounts; rare exceptions are discussed in the Desk Guide.
 - If we are amortizing TIs in the normal manner, there is no cause for a discount, even if an agency paid for renovation during their occupancy; rare exceptions are discussed in the Desk Guide.

Backfill:

- Full discretion from the appraised rate in owned, and from the lease contract Rent in leased. In order to get the tenant in and avoid the losses of total vacancy, we need to make the best deal that results in occupied space
- Can give free Rent as a concession.

2) Amortized TI (general):

No negotiating the rates; no negotiating what the allowance can be used for (e.g., cannot be used for furniture). Amortization term is negotiable, up to but not exceeding the term of the OA; shouldn't amortize beyond the life of the TI.

3) Operating Costs:

Appraisal-based in owned, actual in lease; cannot discount. Changes are in the Extra Services line. Do not cut breaks on the basis of individual space usage. If actual services are negotiated out (e.g., cleaning delegation), then adjust based on appraisal.

4) RE Taxes: (leased space)

First year based on lease contract or our best estimate; adjusted annually, using an estimate plus any adjustment from prior year actual (as a mortgage escrow account); final reconciliation at end of lease term.

5) Amortized TI (customization):

Tier is negotiable, in accord with the Desk Guide; must be approved by the asset manager. Categorical appeal of the tier goes to national portfolio management.

6) GSA-Installed Improvements: (leased space)

Amortize the capital cost; no negotiating on rate, term is the same as lease firm term.

7) Security

a) Basic: Rates are applied unless there is a specific delegation from FPS of the security responsibilities in the building (only for single tenants). (USPS bills GSA for the security charges for USPS space, which PBS passes through to the tenant.)

b) Building Specific Operating: Rates are set by FPS for the building. Applies to all occupants.

c) Building Specific Amortized Capital: Based upon the total capital amount spent on security. Amortized or lump sum; no negotiating the amortization term or the interest rate.

8) Extra:

Only delegations right now; any extra services need to be paid by RWA.

9) Parking

Structured and Surface

- Rates are what the lessor charges in leased space; appraisal in owned.
- If there is no market for parking (e.g., suburbs where parking is plentiful) then there may be no rate for parking.
- If parking is in the shell rent (leased space) then the number of spaces goes into the OA and STAR with a \$0 rate.

10) Rent charges for other space

- Refer to the Desk Guide for policy. Our policy preference is for an appraisal basis.
- Antennas are appraisal-based as first option; if no appraisal, then use the table of values published by the Retail Tenant Services Center of Expertise.
- Use the zero square footage rate in STAR

11) Fee

- The fee (in leased space) is 8 percent. The only exceptions are listed here.
- New Desk Guide defines what services are included in the fee.
- Discount for non-cancelable space: reduced from 8 percent to 6 percent; ONLY GSA decides.
- USPS space fee: set at 4 percent.
- If GSA receives the participating broker fee in any form; no change in the fee.
- If parking-only lease, then GSA fee is applied, although it has to be input in STAR as a portion of a fully-loaded parking rate. (i.e., the STAR input = lease + fee).
- No discount for agency providing some services (e.g., space planning) that are included in the fee.

12) Joint Use Charges (lease, building and facility):

• Apply to all tenants; no negotiation. They are an amenity; charges are not on the basis of use, but on the basis of availability. No exceptions.

Change Transmittals

To: All PBS Assistant Commissioners, Assistant Regional Administrators,
PT Division Directors, and Customers

From: Assistant Commissioner for Portfolio Management (PT)
Special Assistant to the Commissioner, Customer Service

Subject: Pricing Desk Guide, Third Edition
Pricing Desk Guide Companion Document

This letter transmits the Third Edition of the Pricing Desk Guide as well as a separate Companion Document. We are pleased to present this improved edition and companion document to our associates and customers. It incorporates the many suggestions we received. The Companion Document contains four chapters of reference materials providing supplementary descriptions of the pricing policies, examples of pricing application, a glossary and rent billing section.

Changes from the second edition are identified by a black vertical line in the page margins. In addition, the date "3/15/02" appears on the bottom right side on each page. To facilitate replacement for any future updates, we have re-paginated the Pricing Desk Guide with each chapter containing its own numbered pages. Another added feature is the Index. The Index is designed to cross-reference the topics addressed in the Pricing Desk Guide.

You will note both the "Desk Guide" and "Companion Document" are presented as one complete binder-ready package. Users are to remove, in its entirety, the second edition and replace it with the enclosed documents. Attached to this letter of transmittal is a description of substantive changes, which along with letter should be kept as a reference in the tab, labeled "Change Transmittals."

Summary of changes from Second Edition

Table of Contents

- Added Section 7.6 "Emergencies"

Chapter 2.3.1

Adds information regarding location of the web site that contains information regarding various amortization, inflation, and discount rates.

Chapter 3.1

Clarifies that charges for parking in PBS-controlled property should follow the prevailing practices in the asset's local market.

Chapter 3.2.1

Addition of language to the shell rent definition clarifying that market-based rents for continuing occupancies in owned space consist of either shell rents plus the continuing amortization of tenant improvements, or an "as is" rate.

Chapter 3.2.6

Replacement and addition of policies regarding security charges, the main points of which are:

- In order to maintain certain stability in security charges, building specific operating charges are set annually by FPS to be effective at the beginning of the fiscal year. Any necessary mid-year adjustments are to be made at the end of the second quarter of the fiscal year. However, unusually large changes (25 percent over or under the current rate) may also require additional adjustments in the third or fourth quarter of the fiscal year.
- The capitalization threshold for building specific equipment adheres to PBS's accounting policy regarding the capitalization threshold for operating equipment, which currently is \$10,000. Capital security equipment improvements which are less than the threshold are billed as operating expenses.
- PBS will use five years as the amortization period for security equipment; however, large dollar capital costs are to be amortized over 20 years.

Chapter 3.2.10

- Clarifies that the 8 percent fee is not calculated on real estate tax escalations or enhanced services (even if the enhanced services are included in the contract rent). Prevailing practice in each local market will determine what services are standard and what services are above standard or enhanced.
- Clarifies that in regard to leased properties, GSA assumes contract risk such as vacancy risk, contract formation and disputes, and limited tort liability. However, GSA does not assume indemnification risk; thus, GSA does not indemnify agencies against the cost of defending themselves against tort claim liability. GSA does not assume the risk of ownership for leased properties.
- Clarifies that if the 8 percent fee becomes either excessive or inadequate GSA will adjust the fee.
- Clarifies that for initial occupancies in Federally owned space PBS does not charge the tenant for design services through design development. Once the Construction Documents phase is begun, tenants are responsible for their design costs that are funded with their tenant improvement allowances.
- Clarifies that when PBS controls the site for a leased property it may initially cover the cost of any necessary environmental studies associated with that property. However, PBS will seek reimbursement from the eventual purchaser of the site for these studies.
- Clarifies when the separate 4 percent project management fee is charged based on type of occupancy.

Chapter 4.2

States that it is PBS policy to honor, at the CBR level, the appraised rent rate for serviced shell space as shown in the Appraisal Tables that were used to develop the RentEsts. This compliance only applies to continuing occupancies in Federal owned buildings and portfolio leases. The CBR level rate assurance only applies to the appraised rates for shell rent and operating expenses. Excluded are all assignments in leased buildings, all tenant improvements, security charges, square foot changes, and new assignments and expansion space in Federally owned buildings.

Chapter 5.5

Addition of language that clarifies that the forcing agency in a forced move will pay to PBS the displaced agency's rent during the downtime from the time the displaced agency vacates and the time the forcing agency moves in.

Chapter 6.1

Addition of language that PBS has secured budget authority to make lump sum payments for tenant improvements in leased space with BA 53 funds at lease inception in initial and expansion space.

Chapter 7.2

- Addition of language that PBS adopted BOMA operating expense components commencing with FY04.
- Alters language to state that basic and building specific security charges are determined in accordance with Section 3.2.6 Security Charges.

Chapter 7.5

Clarifies that the pricing tables for antennas are to be used for antennas located in areas for which market data is not available. The tables are not required, and in areas that have local markets for antenna rent costs, the rent for antennas on GSA buildings should be based on local market rates.

Chapter 7.6

Adds a chapter regarding pricing policies during emergencies with the following points:

- When PBS signs a lease, it will charge the 8 percent fee even if the agency pays the lessor directly. However, if PBS signs the lease and immediately assigns the contract to another agency, then the lease does not enter the PBS portfolio and is outside the PBS pricing policy. Any service, such as brokerage, that PBS provides in these cases are compensated on a reimbursable basis, the amount of which is determined by local market practice.
- If an agency must vacate its space due to an emergency, and PBS acquires provisional space for it, PBS will seek no change in Rent or any additional fee for its services.

Occupancy Agreement Standard Clauses

9. Services provided by the PBS fee

Updates the web site that lists services that PBS provides to its customers.

Pricing Desk Guide Companion Document

The Pricing Desk Guide Companion Document is located at the end of the Pricing Desk Guide; Third Edition after a tab titled "Companion Document." Like the Pricing Desk Guide, the Companion Document is presented in 3-hole punch paper format. This format allows it to be added as part of the Pricing Desk Guide if desired; or it can be kept as a separate document. The Companion Document is intended to be updated periodically as additional questions and topics arise they will be added.

The Companion Document consists of four sections:

- I. Supplements to Chapters
The format of this section corresponds to the Pricing Desk Guide's chapters and sections for easy reference. The information is further organized by topic area.
- II. Examples
This section portrays situations that illustrate how the policy impacts actual applications.

III. Glossary

This section defines terms used in the Pricing Desk Guide as well as other commonly used real estate terms.

IV. Rent Billing

This section was written by the Office of Financial & Administrative Management Revenue Division (PHR) to provide information on the Rent billing procedures.

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