

Client Enrichment Series – Q & A



Topic: Client Enrichment Series - Introduction to Pricing Policy

Date of Presentation: January 15, 2015

Link to Series Information: [CES Historical Topics](#)

Question #1: Please explain if the floor coverings are included in the TI costs and why. Floor coverings are a tenant improvement (TI) cost. GSA provides the underlying concrete floor as part of the shell. Floor coverings are TI because they are a finish or fixture that takes the space from the shell condition to a finished, usable condition. (PDG 2.5.2 and 3.6.2)

Question #2: Is adding new windows to a space considered TI or shell? Because additional windows modify the building standard, they are a tenant improvement. (PDG 2.5.2 and 3.6.2)

Question #3: Are additional restrooms considered TI? Private and/or additional restrooms are building standard modifications and are therefore a tenant improvement. (PDG 2.5.2 and 3.6.2)

Question #4: The presentation stated that tile (flooring) within the tenant space was a TI. In the current lease model, it states that cyclical re-carpeting is a shell cost. So is the initial floor covering a TI but then replacement of that is shell? Initial floor coverings are considered a tenant improvement; however, cyclical re-carpeting is considered a shell cost. PBS policy is to include cyclic painting and carpet replacement in the lease contract with the expense carried by the lessor; the lessor's shell rent includes these costs. PBS discusses the frequency of cyclic carpet replacement and repainting with the tenant agency before finalizing the request for lease proposal. (PDG 2.4.1)

Question #5: In regards to lighting, would it be correct to say that lighting needed for an open concept floor would be shell--but after you build out the space and put up walls any additional fixtures that are needed would be considered TI? So overall lighting would have shell costs as well as TI costs? That is correct. Building shell provides for the building's prescribed standard lighting installed in the ceiling grid for an open space plan (PDG Table 3.2). Any changes or requests above building standard lighting (e.g. an open plan lighting pattern) would be considered a tenant improvement. (PDG 3.6.2)

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Question #6: If the lease term is 10 years with 5 years firm and the OA is non-cancellable, can the agency choose to pay for TI over 10 years?

The amortization term is usually the firm term of the lease. Extending the amortization term beyond the lease firm term is only permitted if the lessor (with PBS and tenant agency agreement) is willing to take on the risk of amortizing over a longer term. Lessor must agree that no lump-sum costs will be due if PBS exercises termination rights in the lease (if they exist) or vacates at the end of the lease term. (PDG 2.5.8)

Question #7: On the “Payment Options for TI” slide, what is the difference between the custom allowance and TI above the allowance?

The custom component of the TI allowance is amortized into the rent, but the customer has the option of buying down this component of its rent by providing upfront funding via RWA. Any TI above the allowance must be funded upfront via RWA by the customer. (PDG 2.5.5 and 3.6.5)

Question #8: For federal space, is cyclical re-carpeting covered by GSA?

No. In federally owned space, PBS has an obligation to maintain and replace all elements included in the definition of building shell as needed. PBS will, on an as-needed basis, paint and re-carpet common areas, but not tenant agency areas. (PDG 3.5.3)

Question #9: When releasing space in a federal building, must all TIs be removed? Are any efforts made to reuse TI improvements from one agency to the next?

A tenant agency has waiver of restoration rights unless otherwise specified in its OA, and is not required to take space back to a shell condition. However, a customer that is returning only a portion of its space may be required to fund alterations to create marketable blocks. Alterations could include constructing a demising wall to provide separation from the remaining space or constructing a separate entrance. (PDG Table 5-1)

PBS pricing provides an incentive for customers to reuse improvements in existing space since the TI charged is based on the cost of alterations selected by the customer. A customer may waive all or part of its TI allowance thereby reducing its rent. (PDG 3.6.10.B)

Other Questions

1. What is Return on Investment (ROI) pricing?

Return on Investment is a pricing model that is utilized for assets where the appraisal based rental rate is below PBS’ minimal return objective of 6 percent or higher. ROI pricing is most commonly used in land ports of entry and new courthouses. An asset that is ROI priced has a rental rate that is based on the total shell investment and actual operating costs, rather than the appraised rate. (PDG, 6)

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2. Why are suspended ceilings (drop ceilings) included in shell when so often the partitions need to penetrate the suspended ceiling (suggesting the ceiling should be part of an upfit)?

The acoustical ceilings included in the PBS shell definition are one of a number of features that have been identified as a market-based standard for PBS to establish the boundary between building shell and tenant improvements. (PDG 2.4.1. and 3.5.1)

3. Please explain if a “drop ceiling” and lighting are included in the TI cost.

The “drop ceiling” referenced in the PBS Pricing Desk Guide as suspended acoustical ceiling, and lighting are not considered TI if left in their existing state or installed for an open office grid. Cost for a “drop ceiling” and lighting can be charged to the TI allowance if adjustments or repositioning are requested by the tenant agency. (PDG 2.4.1 and 3.5.1)

4. Is a tenant’s request for slab-to-slab partitions (i.e. individual, full-height partitioned offices with independent ceiling grids) considered to be an “enhancement” to the shell and therefore the tenant’s responsibility?

Yes, tenant-agency driven changes, replacements or upgrades to building standard shell features are considered TI and will increase the tenant cost. (PDG 2.5.2 and 3.6.9)

5. Is basement space built out as office space charged full rent?

In federally owned space, PBS charges a general use rental rate which would be applicable to all rentable space. The two exceptions are warehouse and general storage space. When a federally owned building has a predominant portion of warehouse space, PBS charges a warehouse rate. When a federally owned building has general storage space, PBS charges 50% of the general use rental rate. PBS only classifies space as general storage if it is outside of general office space and not fully built out to shell or has permanent conditions, obstructions, or protrusions that prevent general office use. Therefore office space that is located in the basement or used for storage by the tenant would still be charged the general use rate. (PDG 3.4.8 and 3.5.4)

6. If there is space in a building that is not a warm lit shell and the tenant is not using it as storage space, is it considered unmarketable? Or, do you automatically charge for storage since it is based on how the space is built out or being used?

PBS takes into account various factors when making a determination on whether rentable space a customer wants to release back to GSA comprises a marketable block. The major factors considered are location, use, and size of space. Some blocks of space can be made marketable through alterations such as constructing a demising wall or a separate entrance. If

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a customer releases all of its space then that would constitute a marketable block. GSA can assist you in assessing what your release of space options are if you have a particular block of space in mind.

PBS may designate some space within a federally owned building as general storage space and charge 50% of the general use rental rate. To qualify for this classification, the space must be located outside of general office space and not fully built out to shell or have permanent conditions, obstructions, or protrusions that prevent general office use. The classification is based on how the space is built out, not how the tenant elects to use the space.

Please note that there is a PBS category of space called unmarketable space. Common examples of unmarketable space include vertical circulation, such as public stairwells and public elevators, and space unsuitable for occupancy such as space where the ceiling height for the entire area is less than 7 feet. Unmarketable space is not assignable to a tenant and is excluded from the rentable square footage of the federal building.

7. I heard GSA has not yet awarded an IDIQ for FIT, so it isn't wise to sign up for it because delivery is uncertain?

No, GSA project teams should be offering and utilizing FIT as appropriate to help enable customers to right-size their space. The FIT program is fully operational and the GSA Total Workplace Program Management Office coordinates with the GSA Integrated Workplace Acquisition Center to ensure timely delivery and full project support. The IDIQ associated with the FIT Program consists of 5 separate categories and their status is as follows:

AWARDED

Category 1: Workstations

Category 3: Seating

Category 4: High Density Filing

Category 5: Demountable Partitions

IN PROCESS OF AWARD (Anticipate Award Feb 13, 2015)

Category 2: Tables/Conference Furniture

8. Isn't the custom allowance considered a part of the base shell allowance?

Building shell costs are completely separate from TI costs. The custom TI component is a portion of the TI allowance and the customer is provided this entire amount for the build-out of its space. (PDG 3.5.1 and 3.6.5)

9. In Federal Buildings, is janitorial service provided for weight rooms or exercise rooms or is the tenant responsible for hiring a company for cleaning services?

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PBS uses a standard custodial specification for all PBS assigned space to provide a consistent level of service. The standard level of custodial service for fitness rooms includes cleaning floors where the area is not encumbered, cleaning bathrooms and cleaning showers. Fitness rooms also require above-standard cleaning such as maintenance of a group fitness room floor (e.g. stripping, buffing and waxing wood floors), cleaning fitness equipment, cleaning and disinfecting inside lockers, providing shower gel, and cloth towel service.

If the fitness center is managed, these above-standard services are typically incorporated into the Federal Occupational Health or employee association fitness center contract. If the fitness center is unmanaged, these above-standard services are reimbursable via RWA in accordance with any memorandum of agreement for the fitness center. (PDG 3.7.3)