



# GSA PBS Customer Forum

Hosted by the  
Office of Portfolio Management and Customer Engagement  
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***Pricing Policy Basic Training***



# *Pricing Policy Basic Training*

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# Training Topics

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- Occupancy Agreements (OA)
- Building Shell
- Tenant Improvements (TI)
- Operating Costs
- Tenant Agency Rights

# Space Pricing

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



# The Occupancy Agreement

# The Occupancy Agreement (OA)

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- A complete statement of the business terms governing the relationship between PBS and the tenant agency for a specific space assignment
- Serves as the billing document
- Covers financial specifics and responsibilities of both parties
- Not a contract, but a formal agreement between the signing parties

# Why is the OA Important?

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- Keep customer informed of rent charges or project costs
- Help ensure PBS does not incur financial obligations in excess of the terms the customer agency is willing to commit
- Help to eliminate Rent disputes and appeals
- Prospectus submissions must have signed OAs

# Four Parts of the OA

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Description  
of Space  
and Services

Clauses  
(Terms and  
Conditions)

Signature  
Page

Financial  
Summary

# Description of Space and Services

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- Square Footage of Space
- Number of Parking Spaces
- Type of Space
- Building Name and Address
- Occupancy Term

# OA Term

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- The OA gives the tenant agency a right to occupy the space for a specific duration called the OA term
- Leased Space
  - OAs should not exceed and are usually coterminous with the lease term
  - Option period not included
- Federally Owned Space
  - Standard OA term is 10 years

# OA Clauses

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

# PBS standard clauses

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- Financial Obligations
  - Four-month space release right
  - TI allowance
  - Building services
  - Pricing of space
- Schedule and Project Delays
  - Tenant caused delay
  - PBS caused delay
- Cancellation Rights

# PBS standard clauses

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- No alterations without prior approval by PBS
- RWA for TI above the allowance
- Move policy
- Replacement and renewal responsibilities
  - Shell
  - TI

# PBS standard clauses

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- Rent Commencement
  - Tenant agency's obligation to pay rent when space governed by the OA is:
    - substantially complete
    - operationally functional
  - Occupancy and rent start will be coordinated with the tenant
  - Phased occupancy allowed
  - No grace period for moves or installation of personal property items unless included in the contract

# Substantial Completion

- Tenant given opportunity to participate in a walk-through of the space prior to final acceptance by PBS
- Leased Space
  - granting of an occupancy permit and/or PBS's acceptance of the space as substantially complete in accordance with the lease
  - Government has access to the premises and occupancy, possession, use and enjoyment thereof, as provided in the lease
- Federally Owned Space
  - PBS' s acceptance of the space as substantially complete in accordance with the general construction contract
  - Government has access to the premises and occupancy, possession, use and enjoyment thereof, as provided in the general construction contract

# Operationally functional

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- Building systems function
- Building-specific safety and security features operational
- Related space necessary for a tenant to function must be complete

# Financial Summary

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- Preview of the tenant agency's Rent bill
- Itemizes the cost components of the Rent payment
- Summarizes the financial terms and lump sum payment requirements
- Serve as a planning and budgeting tool

# Signature Page

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- OA signature required before incurring significant costs to pursue the project or procurement
  - e.g., awarding a lease contract, purchasing a site or awarding a design contract
- If the tenant agency later backs out of the signed OA agreement, PBS reserves the right to seek reimbursement
- Certain circumstances where PBS can proceed without tenant agency signature
  - e.g., forced move

# Revising an OA

- Events requiring a signature
  - Tenant agency expands or reduces space
  - Services are added or removed
  - PBS agrees to fund additional TIs
  - PBS or the tenant agency wishes to revise the OA terms (must mutually agree)



# Revising an OA

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- Events requiring notification (no signature)
  - Joint use amenities added or removed
  - Security fixtures or features approved by the Facility Security Committee (FSC)
  - Parking spaces added or removed
  - Antennas added or removed
  - Lease extensions advancing the expiration date only

# Revising an OA

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- Federally owned space events requiring a notification (no signature)
  - Continuing occupancy
    - no change in USF and no new TIs
  - 10-year fully serviced shell rate reset to market
    - no change to the USF
  - Building remeasurement
  - Space errors identified through SDM process

# Revising an OA

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- Annual rate updates made to OA (no signature or notification)
  - Operating costs
  - Real estate taxes (leased space only)
  - Parking
  - Antennas
  - BSAC security
  - Joint use

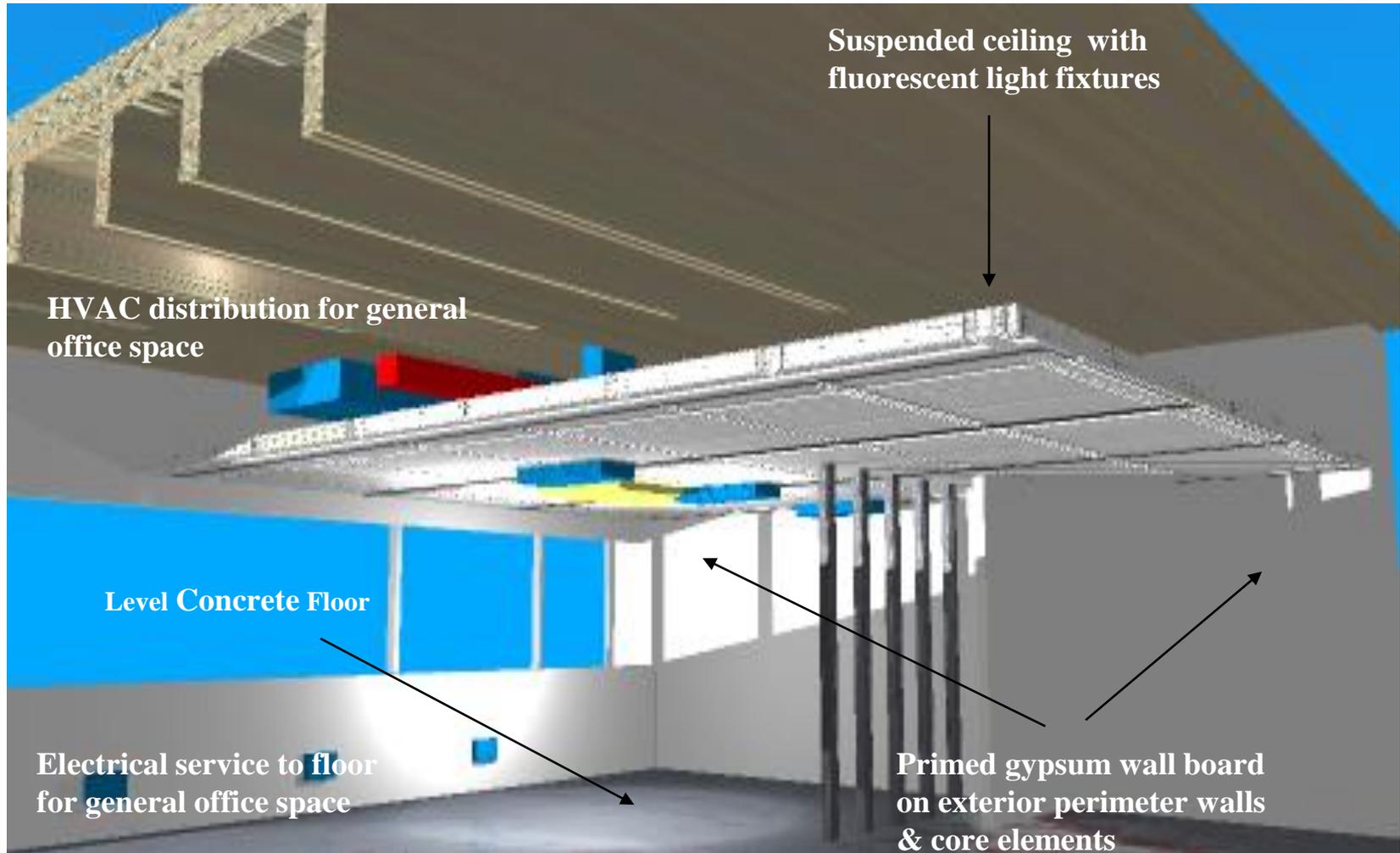


# Building Shell

# Building Shell

- The complete enveloping structure, the base building systems, and the finished common areas of a building that adjoin the tenant areas.
- Shell in base building includes:
  - Base structure and building enclosure (e.g., windows)
  - **Base building** electrical & mechanical systems
  - Common areas (e.g., lobbies, elevators, restrooms, garages)
- Shell in tenant areas includes:
  - Wall board on exterior perimeter & interior core walls
  - Common corridor stud walls without gypsum board
  - Suspended acoustical tile ceiling with parabolic fluorescent lighting (open office layout)
  - Concrete floor

# Building Shell



# Building Shell

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- PDG building shell definition supports regional consistency in the application of TI allowances
- PBS must use the shell definition in its entirety and without deviation
- Building standards and design guides are not part of the building shell merely because they are called “standards”
- Tenant agency-driven upgrades to building shell are to be separately priced and considered TIs
- Buildings specific security items are not included in shell

# Shell Rent – Leased Space

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- Passthrough of the underlying PBS lease contract shell rent
  - Lease may have step rents
- Lessors use shell definition in the RLP/Lease to develop their shell rent rate
  - Design intent drawings (DIDs) typically included in the shell requirements for leases, but is optional
  - PBS policy is that cyclic painting and carpet replacement can be included in leases as a shell cost

# Shell Rent – Federally Owned Space

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- Shell rent based on a FAR appraisal
- Shell rents are established for 10 year periods
- At a minimum, a new FAR appraisal every 10 years
- 50% for general storage space, all other rentable area has the same shell rate

# Example of GNS Space





# Tenant Improvements

# Firewall between Shell & TI

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- The shell and TI distinction is an impermeable barrier or "firewall" across which funding cannot shift
- Exception for prospectus level projects
  - Shell funds can be moved to TI
    - Only with tenant agency's consent
    - Only after other remedies have been examined e.g., plans and specifications review, descoping, value engineering

# Tenant Improvements

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- The finishes and fixtures that typically take space from the shell condition to a finished, usable condition
- Tenant agency elects how its space is to be finished, as long as the space is finished, functional, and compliant with all applicable building codes and standards
- The existence of building standards does not mean they are part of shell – they are still TIs (e.g., suite entry door specification, restricted color palettes)

# Shell vs TI Example



Building Signage

Suite Entry Door

Wood Wall & Stainless Steel Logo

SOCIAL SECURITY ADMINISTRATION USA

Wood (Common Area)

Terrazzo Tile (Tenant Space)

**Legend**

- Shell
- Tenant Improvement

Terrazzo Tile (Common Area)

Glass Wall with Leaf Graphic (Common Area)

# Tenant Improvement Allowance

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- Funding source that enables the space to be built out
- TI allowance has two components - general and customization
- Provides flexibility, choice, and savings incentives
- Commonplace in the commercial real estate market
- Allows both PBS and lessors to budget more reliably
- Helps PBS and tenant agencies comply with appropriations law and with OMB requirement that PBS set limits on amounts that can be amortized in Rent

# Application of TI Allowances

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- Tenant agency elects how its space is to be finished
- Rent payment is lower if an amount less than the allowance limit is used
- If the full allowance is not used for initial buildout, it is no longer available
- Can only be used to pay for items that are real property, or which become real property when attached or affixed to the building

# Example of Real Property TI

The shelving system to the right is real property. The shelving doesn't have fixed aisles but is mounted on top of a mobile carriage and the system is on rails that are grouted/anchored to the floor.



The system to the left is personal property. It is a high density mobile shelving which sits *on top* of the floor.

# TI Cannot Fund Personal Property

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Examples Include:

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

# Application of TI Allowance

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- Initial occupancies (including expansions)
  - New space, new tenant
  - Tenant agency provided the full TI allowance
  - Tenant agency cannot buy down the general allowance in first generation space through use of an RWA
- Backfill occupancies
  - 2<sup>nd</sup> generation space, new tenant
  - The full TI allowance may be provided to tenant agency, subject to availability of funds

# Application of TI Allowance

- Midoccupancy / post initial occupancy
  - Same OA term, same space
  - TIs typically funded by the tenant agency
  - No obligation to provide TI allowance
  - Subject to availability of funds, full or partial TI allowance may be provided to tenant agency, but this is not typical
- Continuing occupancies
  - New OA term, same space, same tenant
  - TI allowance requested typically just minor alterations or carpet and paint
  - Leased Space
    - Tenant agency provided the full TI allowance
  - Federally Owned Space
    - Tenant agency provided the full or partial TI allowance, subject to availability of funds

# General TI Allowance

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- Takes the space from shell to “vanilla” office space
- Set nationally and indexed to local construction costs
  - Currently \$38.95 per USF (Washington, D.C.)
- Covers cost of “typical” office finishes
  - Doors
  - Partitioning
  - Carpeting
  - Electric & telephone outlets

# Customization TI Allowance

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- Takes the space from “vanilla” office space to space specifically designed to function for a particular tenant agency
- Not intended to eliminate the need for lump sum RWA payments
- Customization allowances are not adjusted because they are a percentage of the general allowance, which is already adjusted for inflation and indexed to local construction costs

# TI Allowance by Tier

- PBS created a series of customization tiers
  - tier 0 to tier 6
- Each tier is equal to 10% of the value of the general allowance
- Each tenant agency and bureau is assigned a tier

\$38.95 per USF  
x Local Construction Index  
= **General Allowance**

General Allowance  
x 10% for each Tier  
= **Custom Allowance**

General Allowance  
+ Custom Allowance  
= **Total Allowance**

# TI Allowance Amortization - Leases

- Amortization term usually the firm term of the lease
- Two rules for limiting amortization terms for TIs:
  - The amortization term must not exceed the economic life of the improvements
  - The amortization term must not exceed the term of the OA
    - Exception: Lessors, with PBS and tenant agency agreement, can set amortization term beyond the lease firm term provided no lump-sum costs due if PBS exercises termination rights or leaves at the end of the lease term
- Multiple amortization periods can be done for special cases such as phased projects
- Interest rate negotiated between the successful offeror and PBS

# TI Allowance Amortization - Owned

- Standard amortization term is 10 years
  - Amortization period for courtrooms and chambers assignments can be 20 years
- Two rules for limiting amortization terms for TIs:
  - The amortization term must not exceed the economic life of the improvements
  - The amortization term must not exceed the term of the OA
- Multiple amortization periods can be done for special cases such as phased projects
- Interest rate set annually, 10 year Treasury plus 12.5 basis points
  - 2.985% as of March 2018.

# Lump-Sum Payment Options for TI

<b>Timing of Lump-Sum Payment</b>	<b>Requirement</b>	<b>Payment Method</b>
At assignment inception	PBS allows the tenant agency to use lump-sum payments to lower the TI and/or to cover TI costs above the TI allowance	Above the TI allowance – RWA For relet space, any part of the allowance – RWA (see section 2.5.10.B for additional detail on relet space)
At the time a tenant agency exercises its right to release space back to PBS	PBS requires a lump-sum amount equal to the outstanding balance on the TIs that PBS has been amortizing in the Rent	Rent through OA Tool

# Lump-Sum Payment Options for TI

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



# Operating Costs

# Operating Costs

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- Leased Space
  - Direct pass-through of lease contract cost for standard services to customer agency
  - Typically escalated annually by CPI
- Federally Owned Space
  - Based on market appraisal, not PBS costs
  - Reset to market every 10 years
  - Escalated annually by OMB Inflation Factor

# Op Costs – Utilities in Lease

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- Leased Space
  - Consistent heating or cooling for one shift with a minimum of 10 operating hours
    - Lease may provide HVAC hours in excess of 10 hours depending on local market practice
  - Lease should reflect the building's normal operating hours
  - Reimbursement required for HVAC outside normal hours specified in lease
    - Except server rooms <500

# Op Costs – Utilities in Owned Space

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

# Standard Custodial Services

## Federally Owned Space

- Vacuuming, sweeping, and dusting
- Damp mop and spray buff resilient floors
- Emptying and hauling trash
- Servicing restrooms, lobbies, corridors, and other common areas
- Servicing loading docks and platforms
- Washing windows (at least one washing per year or more as determined by region)
- Carpet spot cleaning
- Snow and ice removal, and lawn and grounds maintenance
- Integrated pest management

## Leased Space\*

- Essentially the same
- Washing windows twice a year
- Plus shampoo every two years
- Essentially the same
- Essentially the same



# Tenant Agency Rights

# Tenant Agency Rights - Cancellation

- Prior to Contract Execution
  - No fault cancellation
- After Contract Execution, Prior to Occupancy
  - Agency is liable for the lesser of these two costs
    - In the case of a lease, the lease buyout costs, or
    - 16-month rental obligation had it occupied the space, plus the unamortized balance of the TIs
    - In the case of owned space, total project cost incurred
- If PBS executes tenant agency-requested services outside of the services PBS provides as part of the PBS fee without upfront reimbursement, then PBS reserves the right to pursue reimbursement whether the tenant agency canceled before contract execution or before occupancy

# Tenant Agency Rights

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- Tenant agency is entitled to a reduction in the PBS fee from 7% to 5% for leased assignments designated as noncancelable
  - PBS makes decision on whether space is considered noncancelable that is reflected in the first pro forma OA
  - Once space has been designated (or not designated) as noncancelable, it may not be changed during the OA term
  - Tenant agencies may not volunteer to designate their space as noncancelable to receive the reduced fee

# Noncancelable Space

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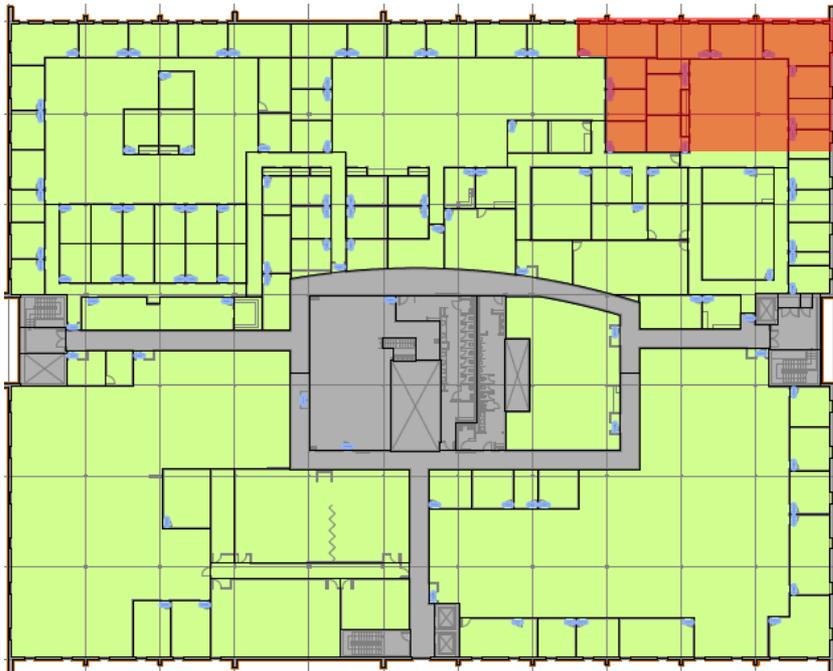
- Remote or not easily accessible location
- Special purpose use or buildout
- Lease construction
- Unusual term
- Lack of any realistic federal need for the space, other than the requesting tenant agency
- Any other factors that would significantly impair PBS's ability to backfill the space

# Agency Rights - Return of Space

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- With 4 months' written notice, tenant agencies have the right to release space to PBS when all of the following conditions are met:
  - There is no longer a need for the space
  - The space is not designated as noncancelable in the tenant agency OA
  - The tenant is at least 16 months into OA term (lease space only)
  - The space is in marketable blocks

# Unmarketable Space Example



- Location: Space not accessible from common corridor
- Size: USF is contiguous, but must consider accessibility

# External Website

Home > Real Estate > Real Estate Services > Rental Policy & Procedures > Pricing Policy >

## REAL ESTATE SERVICES

- Overview
- Leasing Policy & Procedures
- Real Property (Real Estate & Buildings) Disposal
- Reimbursable Services (RS) Program
- Rental Policy & Procedures
- > Pricing Policy
- Rent Library
- Site Selection & Relocation
- For Businesses Seeking Opportunities
- For Federal Customers
- For Workers in Federal Buildings

## Rent Pricing Policy

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

- [Pricing Desk Guide 4th Edition \[PDF - 2 MB\]](#)
- [PBS Order 7025.1A \[PDF - 85 KB\]](#)

The shortcut to this page is [www.gsa.gov/rentpricingpolicy](http://www.gsa.gov/rentpricingpolicy).

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***Questions?***

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