1. **Purpose.** This Leasing Alert provides guidance to the leasing community, BA53 personnel, and Portfolio personnel on the proper manner and timing for the entry of future step rent payments into REXUS, so that the Office of the Chief Financial Officer (OCFO) can generate accurate financial statements of future minimum operating lease payments.

2. **Background.**

   a. It is critical that PBS’s financial statements accurately reflect our financial condition. Financial audit findings over several years, including NFR FBF 2015-005, indicate that known, predetermined future increases and decreases in rental rates, hereinafter referred to as step rents, have not always been entered properly or timely into REXUS. This prevented the accurate accounting and disclosure of future minimum rent payments, and resulted in misstatement of future PBS obligations and expenses.
b. In order to generate accurate reports of future minimum rent payments, step rents must be recorded in REXUS as projected payments at lease commencement or as soon as they are known. Separate projects should not be created for step rents because they will not be captured in the projected payments report and will cause misstatement of our future rent obligations.

c. Within sixty (60) days of the date of issuance of this Leasing Alert, all existing separate projects for the lease action of step rent decrease or step rent increase shall be cancelled and steps entered as projected payments associated with the lease.

3. Effective Date. This Leasing Alert is effective on the date of issuance unless modified, cancelled, or reissued.


5. Applicability. This Leasing Alert is mandatory and applies to all GSA real property leasing activities.

6. Instructions and Procedures. Instructions and procedures are as follows:

**Action to be taken: Entry of step rents into REXUS**

Henceforth for all lease acquisitions and leases, as soon as it is known there will be step rents, the information is to be entered into REXUS as follows.

- A step rent is to be entered into REXUS with the lease as a projected payment line with a start date and the annualized payment amount. REXUS automatically populates the end date with the lease expiration date. If another later step rent is entered, REXUS automatically populates the end date of the first step with the day before the start of the next step.

- When a project is created to acquire a lease (new, new/replacing, succeeding, superseding, and renewal) and step rents are known before the lease becomes active, they should be entered as projected payment lines within the lease acquisition project, not as a separate project outside the lease acquisition project. After lease award when the lease is created in REXUS with a status of “pending,” the step rent payment lines from the project are created as projected payment lines in the lease module.

- If a lease has been awarded and is in an active status, any step rents must be included as projected payment lines. If they were left out, they must be added as projected
payment lines within the lease module. If the lease is active and step rents need to be added, do not create separate projects for them because they will not be captured in the projected payment report used to determine future minimum rent payments. If a separate project was already created for step rents and the lease is active, the project must be cancelled and the steps entered as projected payment lines within the lease module.

Data entry actions in REXUS similar to that described above are required if there is a step rent during an extension term or renewal term, but only if it is a true step rent. A change in the rental rate at the start of the extension or renewal term from the expiring rate is not a step rent for REXUS purposes. A change in the rental rate that is written in the lease amendment and occurs during the extension or renewal term, is to be entered in REXUS as described previously for new, new/replacing, succeeding, and superseding leases.

Similar action in REXUS is required if there is a step rent that is part of an amendment to expand or reduce the square footage, but only if it is a true step rent. A change in the total annual rent or the rental rate that starts with the expansion or reduction is not a step rent in REXUS. However, if that lease amendment includes a step rent, defined below, that occurs after the change in square footage, the step is to be entered in REXUS as a projected payment line with a start date and the annualized payment amount.

When the date and amount of a step rent is specified in the lease, action to effect the change in REXUS can be taken unilaterally by the government. It does not require a lease amendment signed by the lessor.

In all cases, the projected payment is transmitted from REXUS to Galaxy2 and a lease action in REXUS is necessary to change the status from “Projected” to “Waiting for approval.” Under current REXUS procedures, the Responsible Government Associate (RGA) for the lease receives a notification from REXUS at the beginning of the month for the step’s effective date. For example, if there is a step effective June 13, 2017, they are reminded at the beginning of June 2017 to process the lease action in REXUS. This lease action in REXUS is routed to the BA53 analyst and the Lease Contracting Officer (LCO) for approval.

What is a step rent in REXUS? What is not a step rent? What is a payment type and payment description?

Step rent has a specific meaning and use in REXUS. REXUS has a field for rent payments called “payment type,” most of which are listed below. REXUS has another field called “payment description” which is a sub-category of payment type, and includes step rent increase and step rent decrease. Other payment descriptors include rent, escalation, and termination.

For the purposes of projecting rent payments in REXUS, a step rent is defined as an increase or decrease in the rental rate of a type listed below, during the term of the lease, for which the date and amount of the change is known in advance and is written into the lease or lease amendment. Since any step rents must be documented in the lease agreement, step rent actions in REXUS are executed unilaterally by the government and do not require further written approval by the lessor.

The most common examples of step rents are increases or decreases in the shell rent rate per square foot or parking rent per space during the term of the lease. Many REXUS payment types can have a step rent for REXUS purposes if the rate will increase or decrease during the lease term to a predetermined rate and date. Those payment types include:

- Shell Rent
- Structured Parking
- Surface Parking
- Land (Zero SQFT type)
- Wareyard (Zero SQFT type)
- Antenna (Right to roof access, Zero SQFT type)
- Joint Use
- Boat Dock (Zero SQFT type)
- Bridge (Zero SQFT type)
- Railroad Crossing (Zero SQFT type)
- Tenant improvements (general, custom, building-specific security)
  - The stopping or cessation of payments for tenant improvements (TI) once they are fully amortized may be considered a step rent decrease for REXUS purposes. If "Yes" has been selected in the Tenant Improvements field in REXUS, there must also be entered an annualized payment amount, and REXUS will default to the lease expiration date as the end date for payments.
  - If the TI payments are to end before the lease expiration date, or there is only a partial reduction in TI payments, then in the REXUS field “Expiration Date (TI),” the starting date for the reduction or cessation should be entered as a projected
payment line and the reduced amount or $0.00 must be entered. REXUS will automatically populate the end date to coincide with the lease expiration date.

- Operating Rent (i.e., operating costs) (Only considered a step in unusual circumstances when the amount and date of the adjustment is known at the time the lease is executed. A CPI adjustment is not a step rent.)

The following are NOT step rents in REXUS:

- a real estate tax increase or decrease
- operating cost adjustment determined by the CPI
- pass-through of actual operating costs
- annually negotiated rents for leases on airports
- an increase or decrease in the total annual rent due to an expansion or reduction of space
- a change in the rental rate beginning with an extension or renewal term