



GSA Office of Governmentwide Policy

Acquisition Letter MV-21-11
11/3/2021

MEMORANDUM FOR PBS LEASING CONTRACTING ACTIVITIES

FROM: JEFFREY A. KOSES
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SUBJECT: Pilot to Use Cash Incentives and Enhanced Allowances in Lease Acquisitions

1. Purpose.

The purpose of this acquisition letter (AL) is to establish a pilot program for the use of cash incentives¹ and enhanced allowances² in lease acquisitions. It establishes guidelines that the Public Buildings Service (PBS) Office of Leasing will utilize for the evaluation, acceptance and use of cash incentives and enhanced allowances in leases. It establishes procedures for approval when it is in GSA's best interest to require lessors to provide an enhanced allowance.

2. Background.

Recently, GSA started receiving proposals from offerors containing sizable cash incentives. The cash incentives were not requested in the Request Lease Proposals (RLP), but offered as a concession, with the offeror placing few restrictions on how the funds could be used.

GSA policy does not address the evaluation, acceptance or use of cash incentives or enhanced allowances. Although current GSA policy requires client agencies to pay for their own physical moves, furniture, and other related costs of a physical move, GSA found that tenant agencies face challenges in securing up front costs associated with a move. Resolving this challenge will enable GSA to help agencies achieve long-term savings by reducing their overall lease footprint.

¹ "Cash incentive" refers to an instance where a lease offeror unilaterally includes, as part of its lease proposal, an unsolicited amount of funding available for GSA's use beyond allowances and other amounts otherwise required by an RLP. Therefore it is not required of the lease offeror.

² "Enhanced allowance" refers to an allowance required by an RLP that is intended for use not only in funding tenant improvement costs, but also for tenant agency move-related expenses.

Therefore, this acquisition letter authorizes a pilot program in the PBS Office of Leasing to use cash incentives and enhanced allowances for certain move-related expenditures. Potential benefits include increased competition and long-term savings.

There are also risks, such as inappropriate use of funds involved with GSA authorizing these cash incentives and enhanced allowances. In authorizing the pilot, this AL establishes guardrails, establishes metrics to gauge success, and requires semi-annual tollgates to evaluate progress. As part of this pilot, the Office of Leasing will conduct an impact analysis for prospectus and non-prospectus leases.

3. Authority.

This AL is issued under the authority of GSAM 501.370.

4. Effective Date.

The pilot program begins upon the date of signature and will run for up to three (3) years. It may be made permanent, extended, or ended, based on results.

5. Applicability.

This AL applies to PBS contracting activities awarding and administering real property leases.

6. Requirements.

Lease Contracting Officers (LCOs) are authorized to use cash incentives and/or enhanced allowances in leasing acquisitions subject to the following requirements.

a. General

- i. Each intended use of enhanced allowances must be approved by the Head of Contracting Activity (HCA) before solicitation.
- ii. Any procurement that results in a proposal with cash incentives must be approved by the HCA before lease contract award.
- iii. On a semi-annual basis, the PBS Office of Leasing and PBS Office of Portfolio Management and Customer Engagement shall jointly issue a summary analysis to the Senior Procurement Executive (SPE) outlining how applicable procurements performed with respect to the pilot metrics noted below. The SPE may also request a tollgate meeting to review the results.

b. Scope

LCOs may utilize both cash incentives and enhanced allowances in the following circumstances, subject to the prior approvals and provisions discussed in this Acquisition Letter:

- i. Lessor-Provided Move and Relocation Services. Enhanced allowances or cash incentives may be used for move or relocation services in connection with the lease.
- ii. Lessor-Provided Furniture. Enhanced allowances or cash incentives may be used for lessors to provide new furniture, equipment, and other related items of personal property³.
 - 1. Limitation. The lessor must retain ownership of such items during the term of the lease, and the client's rights with respect to such items shall be limited to their use during the term of the lease.
- iii. Tenant Improvements. Enhanced allowances or cash incentives may be used for tenant improvements for which GSA is otherwise responsible under the lease.
- iv. Rent or Rent Reduction. Enhanced allowances or cash incentives may be used to reduce the firm term rental rate under a lease.
 - 1. Limitation. Cash incentives or enhanced allowances related to rent reduction may not be used to reduce any other element of the rent unrelated to the firm term.

c. Pre-Lease Award Procedures

- i. LCOs must evaluate proposals including a cash incentive or enhanced allowance considering the present value analysis of such terms.
- ii. Cash incentives or enhanced allowances must be broken out in the proposal, and can be a sub-line item of tenant improvements.
- iii. The LCO must document the fair and reasonable determination for the proposal, separately considering any cash incentive or enhanced allowance.
- iv. The offer of a cash incentive may not be allowed to cause the fully-serviced rent⁴ to exceed the high end of the market rent, or the rent limitation set forth under an approved prospectus, or the prospectus threshold in the case of a below-prospectus level lease.

d. Post-Lease Award Procedures

- i. Prior to rent commencement, the LCO must reconcile the amount of cash incentive or enhanced allowance used.
- ii. For cash incentives, any unused portion must be used towards reduced rent, immediately after the funds are determined unnecessary. The occupancy agreement should be revised, as necessary.
- iii. For enhanced allowances, any unused portion must be deducted from the amortized principal, immediately after the funds are determined

³ The LCO shall ensure any personal property provided by the contractor is compliant with security requirements outlined in the tenant agency's requirements (e.g. cybersecurity requirements for personal property that connects to the internet).

⁴ "Fully-served rent" is a type of lease structure that includes all components of agreed-upon rent, including shell rent, operating costs, tenant improvements (TI), Building Specific Amortized Capital (BSAC), and parking rent.

unnecessary and during the firm term. The occupancy agreement should be revised, as necessary.

- iv. The LCO must also issue a lease amendment outlining the disposition of the cash incentive or enhanced allowance.

e. Pilot Metrics

- i. Pilot success will be evaluated against the following metrics, as applicable:
 - 1. Number of requests for lease proposals including enhanced allowances and proposals including cash allowances.
 - 2. Moves made possible through the use of the incentive or allowance. Include a running list sortable by agency, location, size, and savings.
 - 3. Any other relevant metrics PBS deems applicable, such as:
 - a. Lease Cost Avoidance comparing actual negotiated lease costs over the term to the applicable market average.
 - b. Lease Cost Relative to Market (LCRM)
- ii. The results of the pilot should be documented by the leasing acquisition team during each phase of the lease acquisition cycle. (i.e., lease acquisition planning phase, lease-solicitation, lease-evaluation, lease-award, or post lease-award administration). The documentation should include lessons learned and what overall benefit was received from utilizing cash incentives and enhanced allowances.

f. Implementing Actions

- i. The PBS Office of Leasing shall take the necessary actions to implement this policy, including updating leasing templates.

7. Point of Contact.

Any questions regarding this letter may be directed to GSARPolicy@gsa.gov.