




# Client Enrichment Series: Tenant Improvements



GSA Public Buildings Service

# References & Referrals

- Pricing Desk Guide – Access at:  
[www.gsa.gov/rentpricingpolicy](http://www.gsa.gov/rentpricingpolicy)
- Contacts:
  - Regional Account Manager
  - Regional Specialist or LCO handling the space acquisition



Can't talk about tenant  
improvements without first  
talking about the shell  
definition.

# What about Building Shell?

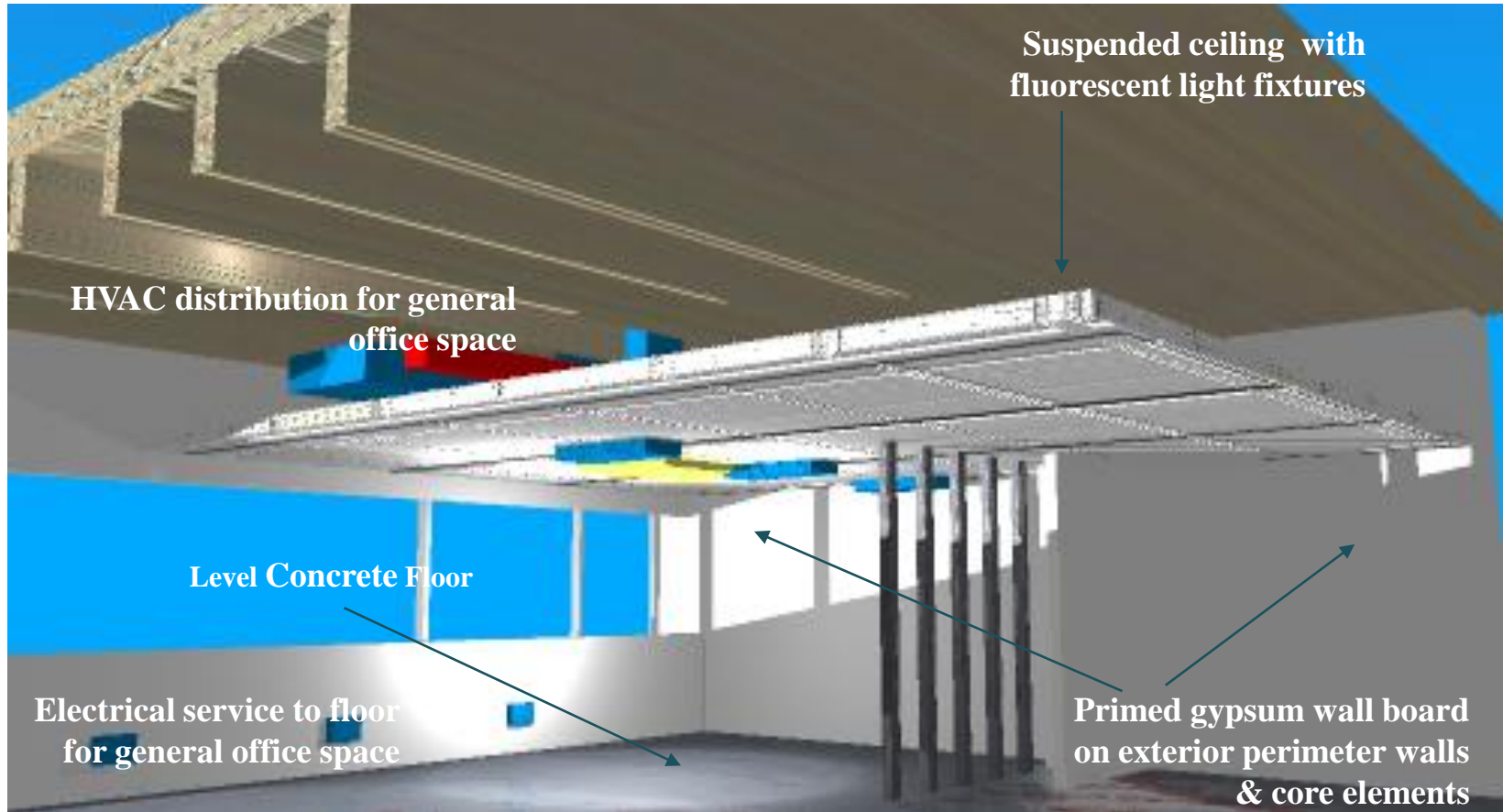
- The shell and TI distinction is an impermeable barrier or “firewall” across which funding cannot shift.
- PBS must use the shell definition in its entirety without deviation.
- Building standards and design guides are not part of the building shell merely because they are called “standards.”
- Tenant agency driven upgrades to building shell are considered TIs and are separately priced.

# Building Shell Definition

- 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

PDG Sections 2.4.1 and 3.5.1

# Building Shell



PDG Sections 2.4.1 and 3.5.1



# Tenant Improvements

# Tenant Improvements

- The finishes and fixtures tenant agency elects that typically take space from the shell condition to a finished, usable condition; 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)

PDG Sections 2.5.1 and 3.6.1



# Typical Tenant Improvements

- Electrical wiring, outlets, and horizontal conduit, including cable trays and hooks, within the tenant agency's demised premises and to the building core
- Carpeting or other floor covering; raised access flooring
- Plumbing fixtures within the demised premises and all lines connecting to the building core – except for common bathrooms
- Partitioning and wall finishes
- Doors (including suite entry), sidelights, frames, and hardware
- Millwork
- Thermostats
- Window treatments
  - Refer to PDG for Comprehensive List

PDG Sections 2.5.2 and 3.6.2

# Shell Upgrades (Priced as TIs)

- Examples:
  - Separate HVAC for ADP or computer room environmental control
  - Upgraded ceiling tile
  - Specialty lighting
  - Structural enhancements to support unconventional floor loads
  - Private elevators or restrooms

# Shell vs. TI Example



Suite Entry Door

Wood Wall & Stainless Steel Logo

Building Signage

Wood (Common Area)

Terrazzo Tile (Tenant Space)

Glass Wall with Leaf Graphic (Common Area)

Terrazzo Tile (Common Area)

**Legend**

- Shell
- Tenant Improvement



# Tenant Improvement Allowance

# Application of TI Allowances

- Funding source that enables the space to be built out
- Rent payment is lower if an amount less than the allowance limit is used
- If the full allowance is not used for initial build-out, 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

PDG Sections 2.5.9 and 3.6.9



# TI Cannot Fund Personal Property

## Examples Include:

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



PDG Sections 2.5.9 and 3.6.9

# Application of TI Allowance

- 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

PDG Sections 2.5.3 and 3.6.3

# Application of TI Allowance

- Mid-occupancy / 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
- 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

- 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

PDG Sections 2.5.4 and 3.6.4

# Customization TI Allowance

- Takes the space from “vanilla” office space to space specifically designed to function for a particular tenant agency’s mission
- Examples include
  - custom cabinetry or millwork
  - laboratory countertops and fume hoods
  - private restrooms
  - raised access flooring
  - upgraded ventilation for high occupancy uses
  - slab-to-slab walls

PDG Sections 2.5.5 and 3.6.5

# TI Allowances for Warehouses

- The TI allowance reduced to 20% of the general allowance as adjusted for locality
- If the TI allowance is to be used to construct offices or other habitable or conditioned spaces within a warehouse building, then the TI allowance is to be used to construct all the shell and TIs necessary for that office or other use

PDG Sections 2.5.13 and 3.6.13

# 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

$$\begin{aligned} & \$38.95 \text{ per USF} \\ & \times \text{Local Construction Index} \\ & = \text{General Allowance} \end{aligned}$$

$$\begin{aligned} & \text{General Allowance} \\ & \times \text{10\% for each Tier} \\ & = \text{Custom Allowance} \end{aligned}$$

$$\begin{aligned} & \text{General Allowance} \\ & + \text{Custom Allowance} \\ & = \text{Total Allowance} \end{aligned}$$

# TI Allowance by Functional Estimate

- The TI allowance is set in accordance with the benchmarks or cost estimates
- Must cover the cost of basic functionality that meets the tenant agency's operational requirements for its specific space use
  - PBS is not obligated to ensure that all aspects of a tenant agency's design guidelines are incorporated into the TI allowance
  - Not intended to cover the total cost of TIs or eliminate lump sum funding, the standard is functionality vs. finish, fixture and feature enhancement
- Space must be finished, functional, and compliant with all applicable building codes

# 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
  - 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
- [PDG Section 3.6.8](#)

# Lump-Sum Payment Options for TI

Timing of Lump-Sum Payment	Requirement	Payment Method
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

PDG Sections 2.5.10 and 3.6.10



# 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

PDG Sections 2.5.10 and 3.6.10



# Building Specific Amortized Capital (BSAC)

# BSAC

- **Security items** that are a separate capital investment in the property
  - recommended by FPS under ISC
  - doesn't include tenant specific security which is a TI
- Not included in the building shell or TI
- Separately charged to agency on rent bill

# Some BSAC Examples

- Progressive collapse avoidance
- Window glazing
- Blast resistant windows
- Vehicular barriers (e.g., bollards, pop up & arm gates)
- Parking lot fencing
- Card readers that serve solely as a locking mechanism at the building entrance

# BSAC in the Rents

- For federally owned buildings, amortized at federal TI rate into the building rents for totals exceeding \$50,000; then prorated to each occupying tenant on their rent bill.
- For leases, amortized over lease firm term at usually the same rate as the TIs (subject to OMB A-11 restrictions).

# Application of OMB Circular A-11

- Contains the rules/processes for space as it relates to features and enhancements built for the government's unique needs or special purposes
- Indicates that security related build out unique to the tenant and also that BSAC may be financed through the rents provided
  - in the case of leases, their inclusion does not push the total fully serviced rent over the OMB approved rental rate and remains under the high end of the fully serviced market rents.
  - in federally owned buildings, the rent limitation does not apply; requires only that the improvements be within the functional standard for the tenant agency.



# Questions?