

Client Enrichment Series – Tenant Improvements Q & As



Question #1: Can you explain the meaning of “buying down” the Tenant Improvements?

Answer:

Before the beginning of a space assignment, GSA allows an agency to pay lump sum for the custom TI portion of their allowance. This lump sum payment is in essence a TI “buy down” and lowers the agency’s rent. For example, if the total TI allowance for an agency would be \$46.74 / Usable Square Foot (\$38.95 / USF general + \$7.79 / USF custom), an agency could elect to lower their TI allowance down to the general component and instead provide an RWA for those TIs. If an agency is moving into backfill or re-let space and accepts the existing tenant improvements "as is" or without major modification, the tenant can elect to waive all or part of the general allowance. Regardless of whether an agency chooses to lower their TI allowance, GSA only charges a customer for the TI allowance that is actually used.

Question #2: How often is the General TI allowance looked at and does it change annually? Where can customers see the most current city price index?

Answer:

PBS reviews the general allowance for Washington, D.C. (the index city) as market conditions warrant and it was last updated on June 2011. The general allowance is adjusted for other major cities and localities by multiplying the Washington, D.C. general allowance by the local construction cost factor which is reviewed annually. Contact the Realty Specialist or Regional Account Manager in the region where the space acquisition is to take place for applicable local construction cost factor.

Question #3: Is Tier 6 the highest tier an agency can have? Is the Judiciary the only group that is granted Tier 6?

Answer:

Yes, tier 6 is the highest level of customization assigned to an agency bureau and almost exclusively used for certain judiciary space assignments such as courtrooms. In addition to the standard tier method, GSA may set an agency’s TI allowance for a project using a functional estimate. This method is primarily used for prospectus projects or when an agency has space that is not typical for that tenant agency. The standard for determining the TI allowance using a functional estimate method is to cover the cost of basic functionality (operational requirements) for the specific space’s use, not the total cost of TIs that may be requested by an agency.

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Question #4: Is the unamortized TI still paid via the agency's next rent bill after release, in a lump sum amount?

Answer:

In a release of space the unamortized TI balance is typically charged on the last month of rent. For a partial release of space the customer may elect to have the unamortized TI balance re-amortized over the remaining space in the OA.

Question #5: Is it true that an RWA for any TI above customization has to be in place before a succeeding lease is signed?

Answer:

Yes, an RWA must be in place before GSA enters into a contract, such as a lease, lease amendment or construction contract, to deliver TIs above the allowance. PBS will work with the tenant agency throughout the project life cycle to make sure the authorized RWA amount covers the estimated project cost.

Question #6: Would an agency's security scope of work be allowed to fall within TI or does this have to be on a RWA? Does this differ for federal vs. leased space?

Answer:

The TI allowance may be used only to pay for items that are real property. Build-out of agency specific security may be paid with the TI allowance in either federally owned or leased space. The cost of security related tenant build out financed into a lease must not result in a total fully serviced rental rate beyond the high end of the market or approved prospectus rental rate.

Question #7: Is there a different shell definition for warehouses and aircraft hangars (or non-traditional office space)?

Answer:

PBS has one shell definition that is detailed in the Pricing Desk Guide. The shell definition is not a prescription for how to design buildings or engineer base building systems, but provides a standard definition for pricing building shell elements so that the distinction between shell and TIs is consistently applied across the country. Certain types of buildings, such as a warehouse, may only require a shell that is less than the PBS shell definition. In leased space the actual shell requirements are specified in the lease and offers bid accordingly. In owned space fair annual rent appraisals which approximate the market rate for comparable space.

Question #8: For shell upgrades, is the agency responsible for the difference between the shell cost and the cost for the upgrade? As an example, ceiling tiles are required under the shell, if the tenant wants a higher quality do they just pay the difference or does the entire cost now go to the tenant?

Answer:

A tenant agency pays for enhancements to the building shell. If that shell component has not been constructed, the tenant only pays for the cost difference of the upgrade.

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Question #9: Why is the thermostat a TI? Isn't it necessary to operate the HVAC, which is shell?

Answer:

Thermostats in tenant areas are TIs because they can be moved, changed, or added to the open plan HVAC distribution network to accommodate individual office layouts.

Question #10: Once BSAC security items have been paid for, shouldn't rates go down?

Answer:

The cost of BSAC security items are only charged over their amortization period. Maintenance costs of BSAC security may still be charged.

Question #11: Is there a way to find out what the base shell is for a leased or federal space? And what is included in that base shell?

Answer:

In leased space the shell rent charged to the tenant agency is a pass through of the underlying PBS lease contract. In federally owned space the shell rent charged to the tenant agency is based on a FAR appraisal. In both leased and federally owned space the shell rate has its basis in the PBS shell definition found in the PBS Pricing Desk Guide.

Question #12: In Federally Owned space during Mid-Occupancy or Continued Occupancy - if TI funds are not available through GSA, are tenant agencies allowed to fund themselves through project funds via RWA?

Answer:

Yes, in fact a customer should expect to fund any mid-occupancy or federally owned continuing occupancy alterations via RWA. PBS is not obligated to provide a tenant agency a TI allowance at any time during the occupancy term after initial space alterations are complete. Tenant agency requests for PBS funding are subject to funds being available in the PBS budget.

Question #13: Who at GSA is responsible for determining if the bids by the lessor include only TI items and have not included any shell items?

Answer:

The PBS lease contracting officer is responsible and may confer with in-house or contracted subject matter experts (e.g., cost estimators, Design and Construction engineers, appraisers, pricing team, etc ...) as necessary to review lessor bids to ensure no shell costs have been included in the TI costs.

Question #14: How does one pay for costs **above** the TI total allowance?

Answer:

TI costs exceeding the TI allowance are paid via RWA.

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Question #15: Why is there interest placed on federal space and how is it determined?

Answer:

In federally owned space TIs paid through rent are funded by PBS from the Federal Buildings Fund and amortized with an interest rate that is based on the 10 year Treasury bond rate plus 12.5 basis points. The resulting rate is known as the interagency borrowing rate.

Question #16: In mid-occupancy if a tenant cannot afford to fund upgrades, will GSA fund and amortize over a period of time? Is this amortized or by RWA lump sum?

Answer:

A customer should expect to fund mid-occupancy alterations via RWA. PBS is not obligated to provide a tenant agency a TI allowance at any time during the occupancy term after initial space alterations are complete. Tenant agency requests for PBS funding are subject to funds being available in the PBS budget.

Question #17: Who issues the list of security items that are separate capital investments that will be charged to the agency on the rent bill?

Answer:

The Federal Protective Service (FPS) in conjunction with the Facility Security Committee (FSC) uses Interagency Security Committee (ISC) standards to determine the security countermeasures that will be implemented.