



DEC 29 2004

MEMORANDUM FOR ASSISTANT REGIONAL ADMINISTRATORS

FROM:  WILLIAM H. MATTHEWS 
ASSISTANT COMMISSIONER - PV

SUBJECT: Pricing Policy Clarification #17
Rent Concession

The attached pricing policy clarification adds the commission credit associated with the National Broker Contracts as another form of a Rent Concession as currently defined in the Pricing Policy. Training was provided from the Office of Real Property Asset Management by Steve Peters, in coordination with the Office of National Customer Services, to all Realty Specialists in four sessions that covered all regions. The training defined commission credits as a rent concession and provided instruction on how the credit should be handled as part of the payment to the lessor (STAR) and how it is passed along to our tenant agencies (OATool).

The policy clarification was drafted in coordination with the Regional Pricing Points of Contact (POC's) and the Pricing Network. A copy of this policy clarification is being provided to the Regional Pricing POC's for dissemination within each Region.

If you have questions regarding this policy clarification, please contact the National Pricing Points of Contact, Kevin Rothmier at 816-926-1100 or Steve Peters at 215-446-4670.

Attachments

cc: Assistant Commissioners, Regional PT Directors, Regional Pricing POC's



Effective Date: November 1, 2004

Purpose: Policy Clarification #17 on Commission Credit on the National Broker Contract

Existing Desk Guide Language:

Desk Guide Section 3.2.1, page 3-4, contains the current policy on Rent Concessions.

Clarification:

The Rent Concession section has been clarified. Replace the Rent Concession Paragraph in Desk Guide Section 3.2.1 in its entirety with the Attachment.

Attachment

Rent Concessions

Any Rent concession given at the start of a lease term, such as free rent or the commission credit received on the National Broker Contract, is also passed through to the customer agency. An OA standard clause addresses how, in the event of such concessions, the customer agency is responsible for any unearned balance on the concession value in the event the agency exercises its right to return space on four months written notice. For example, if a lessor provides six months of free rent on an eight-year firm term lease, and the agency leaves at the end of year five, then out of 90 monthly payments over the lease term (8 yrs x 12 months = 96 pmts minus six months free = 90) the agency made only 54 payments (5 x 12 = 60, but the first 6 months were free, so 60 - 6 = 54.) This means that the agency has truly earned only 60 percent of the initial free rent concession (54/90 = 60 percent) but has already received the entire benefit of the concession. Sixty percent of the initial six month free rent concession equals 3.6 months (6 x .6 = 3.6) and therefore, the customer agency must pay PBS back 2.4 months worth of rent: the value of the concession unearned. This payment must be made at the time the agency ceases occupancy. The payment can be taken over a number of months, rather than in a lump sum adjustment

The commission credits are processed as follows:

- 1) The credit is to be applied against the Shell Rent.
- 2) The credit is applied starting with the first month up to the full amount of the Shell Rent component and continuing each month until the credit has been fully received.
- 3) The Occupancy Agreement should reflect the full Shell Rent and the commission credit is treated as a Billing Adjustment
- 4) In STAR, the full cost of the lease should be reflected on the Payment Schedule with the commission credit recovered as a Withhold.