



SEP 21 2007

MEMORANDUM FOR ASSISTANT REGIONAL ADMINISTRATORS (PBS)

FROM: *Cathleen C. Kronopolus*
CATHLEEN C. KRONOPOLUS
ASSISTANT COMMISSIONER (PV)

SUBJECT: Pricing Policy Clarification #22,
Free Space in Leased Locations

The attached pricing policy clarification covers policy when free space is offered at a leased location. Also attached are implementation instructions and a sample of the OA Clause used in accordance with this clarification.

This clarification has been cleared through the PBS Issuance System. It was drafted in coordination with the Pricing Network and the Real Estate Acquisition Division. A Realty Services letter will be issued to provide operational guidance in support of the policy.

If you have questions regarding this clarification, please contact one of the National Pricing Points of Contact, Beth Lemanski at 202-501-3277, David C. Baker at 202-595-4648 or Kelly Juarez at 816-823-2545.

Attachments

cc: Assistant Commissioners, Regional PT Directors, Regional Pricing POCs, and Realty Services Officers

FREE SPACE CLARIFICATION #22

Effective Date: September 10, 2007

Purpose: Pricing Policy Clarification #22 on Free Space in a Leased Location
No policy currently exists for the treatment of free space in leased locations. This clarification is provided for consistent treatment of the issue.

Existing Desk Guide Language:
The existing Pricing Desk Guide does not address free space in leased locations.

Clarification:
Add to Section 3.2 after Rent Concessions.

Free Space in Leased Locations

When an offeror has a contiguous block of space that exceeds the maximum amount for which GSA has solicited, he or she may offer this space at no charge to the Government. When the offered space exceeds the maximum solicitation for offers (SFO) requirement, the tenant agency must be consulted. The agency must agree to accept the extra space and sign an occupancy agreement (OA) for the actual square footage, or it must reject the additional square footage.

If the customer agency accepts the space, then rent for the total square footage (including the free space) will be assessed on the rent bill. However, the overall rate will be reduced (blended in the OA Tool) to essentially make the additional space free. If the customer agency rejects the extra square footage, the offeror must show that the free space will be partitioned off from the requested block of space.

Once free space is accepted, the following apply:

- The contracting officer must not consider the free space during negotiations or evaluations of a competitive lease action.
- The tenant improvement allowance must not be increased to include the square footage of the free space.
- A clause must be completed and included in the OA to explain the terms of the free space and details of the blended rate.
- The square footage of the free space must not be included in the base cost of services.
- The annual Consumer Price Index (CPI) adjustment is not applied to the free space.
- The percent of government occupancy, for real estate tax purposes, must not include the free space.

- If space is returned by the agency prior to expiration of the lease, an amount of square footage up to the total free space square footage must be returned first, with no adjustment to the rent, before any paid space can be released. This is the case even if the physical space that was initially counted as free remains in the tenant's possession. This information is included in the free space OA clause.
- The free space square footage is not included in any scoring analysis pertaining to a location with free space.
- Seek further guidance from Real Property Asset Management (RPAM) at national office prior to accepting free space for a prospectus level lease.

Charges outside of the lease contract, such as security costs billed through the Federal Protective Service (FPS), will be assessed on the entire block of space since it is occupied by the customer agency.

**OA Clause for Use When Free Space is
Offered and Accepted in a Leased Location**

Although the maximum requirement for this assignment was ### RSF, the Lessor has included ### RSF of space free of charge which brings the total square footage to ### RSF. The actual square footage occupied is documented in this OA and will be reflected on the rent bill. However, only ### RSF is being assessed rent. The blended rates (to accommodate the free space) per rentable square foot are reflected on the financial summary pages of this OA. If space is returned by the agency prior to expiration of the lease, an amount of square footage up to the total free space square footage must be returned first, with no adjustment to the rent, before any paid space can be released. This is the case even if the physical space that was initially counted as free remains in the tenant's possession.

Instructions
Free Space in a Leased Location
OATool and STAR

In situations where the offeror is providing more space than the maximum in the Solicitation for Offers (SFO), data should be entered in the OATool and STAR to capture both the amount of space as reflected in the SFO and the free space. Data should be entered as follows:

OATool

1. Create OA for full amount of space including both the SFO space and the free space reflecting the correct USF, RSF. Also include Parking and appropriate Effective and Expiration Dates.
2. On the OA Main Screen enter "Includes ### RSF of Free Space" in the Version Description.
3. On Rates page, enter the annual amount for each Rent Component based on the square footage we are paying rent to the lessor. The OATool will then calculate the blended rate.
4. Add the Optional Clause – Free Space by checking box next to the clause.
5. Fill in the appropriate amounts for all text boxes in this clause and save

STAR

1. The Project should reflect the square footage requested by the agency
2. The Lease should use the total of the "paid" and "free" space. This total should be entered on the Lease Details screen in the ANSI rentable field.
3. Add Remarks - "Includes ### RSF of Free Space" to the Lease module.
4. Space records should be created in one CBR for the full amount of usable and rentable square footage including the "paid" and "free" space. A separate record for the "free" space should be created with Space Category of Assigned – New, Space Type based on build out and "Free Space" should be added to the Activity Name field. (For Senate and House space, the separate space record should still be created but it will not be possible to add Free Space to Activity Name field since the member name appears there)