



FEB 20 2009

MEMORANDUM FOR ASSISTANT REGIONAL ADMINISTRATORS

FROM:  JOHN E. B. SMITH
ACTING ASSISTANT COMMISSIONER (PV)
OFFICE OF REAL PROPERTY ASSET MANAGEMENT

SUBJECT: Pricing Policy Clarifications #26 and 27
Return on Investment (ROI) Pricing for Courts-occupied and
Federally Owned Properties

The attached pricing policy clarifications outline the new Return on Investment Pricing Policy for Courts-occupied and Federally Owned Properties. Clarification #26 captures the terms and conditions mutually agreed upon by the General Services Administration (GSA) and the Administrative Office of the U.S. Courts (AOUSC) as outlined in the Memorandum of Agreement (MOA) dated February 11, 2008 regarding Return on Investment (ROI) pricing. Clarification #27 outlines the ROI pricing policy for Federally Owned Properties.

These two clarifications replace Modification #11 to the Pricing Desk Guide in its entirety. These pricing policy clarifications will be included in a separate ROI chapter of the upcoming fourth edition of the Pricing Desk Guide.

To assist in the implementation of ROI pricing, new mandatory Courts-occupied and Federally Owned ROI Workbooks and a Capital Investment Tracking Tool have been developed and placed in the Office of Real Property Asset Management's (RPAM) website under Tools and Databases.

Appreciation is extended to the Regional Pricing Points of Contacts (POCs) and Pricing Network, who provided helpful comments and assistance in the development of these policy clarifications. A copy of these policy clarifications is being provided to the Regional Pricing POCs for dissemination within each Region.

If you have any questions regarding this clarification, please contact the National Pricing Points of Contact: David Baker at 212-577-7920, Joy Heuer at 202-208-4937, Beth Lemanski at 202-501-3277, or Kelly Ellison at 202-208-7007.

Attachment

cc: Assistant Commissioners
Regional PT Directors
Regional Pricing Points of Contact
Patrick Fee, Director of Building Operations and Maintenance
Robert D. Shaw, Director of Building Security and Policy

Effective Date: February 20, 2009

Purpose:

Pricing Policy Clarification #26 updates Return on Investment (ROI) pricing for Courts-occupied Properties to reflect the Memorandum of Agreement (MOA) between GSA and the Administrative Office of the U.S. Courts (AOUSC) (dated February 11, 2008) of the Pricing Desk Guide.

Existing Desk Guide Language:

The existing desk guide language resides in Pricing Policy Modification #11, Return on Investment (ROI) Pricing, to the Pricing Desk Guide.

Clarification:

The ROI pricing policy has been modified. This pricing policy clarification along with the pricing policy clarification for ROI pricing for Federally Owned Properties replaces Modification #11 in its entirety.

Return on Investment (ROI) Pricing for Courts-Occupied Properties

This document addresses return on investment (ROI) pricing for GSA-owned properties that are entirely or predominantly occupied by the U.S. Courts. The ROI pricing policies for non-Court federally owned properties and GSA's land ports of entry (LPOEs) are addressed in separate directives.

ROI pricing is a means of pricing that may be employed when Fair Annual Rent (FAR) pricing does not meet GSA's minimum return objectives. GSA's minimum return requirement is currently 6% but may be adjusted by GSA as necessary.

GSA and the Administrative Office of the U.S. Courts (AOUSC) executed a 10-year Memorandum of Agreement (MOA) on February 11, 2008, outlining the provisions for calculating and applying ROI rent for Courts-occupied properties in GSA's owned inventory. The terms of the MOA are incorporated in this document.

Notable aspects of ROI applications to Courts-occupied properties include: 1) the conversion of existing ROI-priced Courts-occupied Properties to the new ROI pricing methodology, 2) the application of ROI pricing to all new Courthouse construction projects, and 3) the use of appraisal-based pricing for all other Courts occupancies in federally owned space.

While it is always required to apply ROI pricing to new construction projects and conversions of existing ROI Courts-occupied Properties, there may be other situations where an appraisal-based Courts-occupied Property qualifies for ROI pricing. This document includes instructions for applying ROI pricing to substantial rehabilitation projects and where appropriate, to conversions of underperforming Courts-occupied Properties from appraisal-based to ROI pricing. The region must submit an ROI Workbook and supporting source documentation to the Office of Real Property Asset Management (RPAM) for review and approval of the Workbook and concurrence with the region's proposal to apply ROI pricing. On a case-by-case basis, RPAM will coordinate

with the AOUSC to secure its agreement with the application of ROI pricing to these types of situations.

Generally, although the Courts are the main tenants, all other tenants within the ROI-priced Courts-occupied Property are subject to ROI pricing unless they meet the prescribed criteria for an exception outlined in section V below. ROI pricing cannot be applied to space leased by GSA to house Courts tenancies.

Evaluating ROI Applications and Calculating ROI Rates

For each proposed ROI pricing application, two tools, contained in the same Excel Workbook, must be completed to establish eligibility for ROI pricing and to calculate the ROI rates. Completed ROI Workbooks must be prepared in conjunction with the regional appraiser and approved by the regional portfolio director.

1. **The Hurdle Rate Test** is required in all cases, even for properties that are automatically ROI priced per the MOA. GSA will study the results of those Hurdle Rate analyses to evaluate the terms of the ROI pricing methodology. The Hurdle Rate Test is incorporated into the ROI Workbook and is more fully discussed in section IX below.
2. **The ROI Workbook** must be used to develop the ROI shell rate for an Occupancy Agreement (OA).

All ROI Workbooks for Capital Investment and Leasing Program (CILP) ROI candidates, for conversions of appraisal-based pricing to ROI pricing, and for establishing billing of ROI-priced space must be completed and transmitted to RPAM along with source documentation for review and concurrence before transmitting OAs with ROI rates to the tenants for signature. ROI Workbooks and updated source documentation to be used as the source for billing the customers upon construction completion must be submitted to and approved by RPAM. The most recent Office of Management and Budget (OMB) discount rate should be used in early calculations of the ROI rate and corresponding iterations of the OA. However, the OMB discount rate used to establish the initial 5-year shell rate in the tenant's bill must be set in an OA in sufficient time to allow an agency to budget for its rent, typically 18 to 24 months.

The Workbook has been designed to prevent the calculated shell rate from dropping below GSA's current Hurdle Rate. The ROI shell rate is fixed for 5 years and any new space occupied during that 5-year period will be priced at that rate until that 5-year period ends. The ROI shell rate will be reset at the end of each 5-year term to include a return on capital improvements completed during the period. This process is outlined in section VI, Adjusting the ROI Shell Rate for Additional Capital Improvements, below.

Terms and Cancelability of Occupancy Agreements (OAs)

Type or ROI Property	OA Term and Cancellation Rights
Conversions of existing ROI-priced Courts-occupied Properties where ROI pricing was applied prior to FY 2000.	OAs have 20-year terms and are noncancelable.
Conversions of existing ROI-priced Courts-occupied Properties where ROI pricing was applied since FY 2000 began.	The new OAs retain their original term of years and are noncancelable.
New construction.	OAs have 20-year terms and are noncancelable.
Substantial rehabilitation.	OAs have 20-year terms and are noncancelable.
Existing Courts-occupied ROI-priced Properties (follow-on terms).	OAs have 20-year terms and are noncancelable.

I. Converting Existing Courts-Occupied ROI Properties to New ROI Pricing

Existing ROI-priced Courts-occupied Properties are being converted to the new ROI pricing methodology as described below.

1. **Courts-occupied Properties where ROI pricing was applied prior to FY 2000:** Since complete historic capital cost information is not available, the OAs will convert to the new ROI pricing methodology when the original OA term expires.
2. **Courts-occupied ROI Properties where ROI pricing was applied since FY 2000:** Conversion to the new ROI methodology will take place by 10/1/2009. The new OAs retain their original term of years and are noncancelable.

The follow-on OA term for ROI-priced Courts-occupied Properties will be 20 years and these OAs will be non-cancelable. The new ROI shell rate will be calculated on the Fair Market Value (FMV) of the Property in its fee simple as-is condition as determined by a third-party contract appraisal (contracted by GSA), assuming continuing Federal occupancy for a 20-year term. Although the MOA requires that the Property remain ROI priced for the follow-on term, the regions must perform a Hurdle Rate Test within the Workbook for informational purposes. After regional and Central Office review, a copy of the Workbook and appraisal must be provided to the AOUSC.

II. Applying ROI Pricing Methodology to New Courts Construction and Substantial Rehabilitation.

A. New Construction

All newly constructed courthouses added to the GSA inventory on or after February 19, 2008, will automatically be ROI-priced, regardless of the outcome of the Hurdle Rate Test. OAs must have 20-year terms and be non-cancelable. GSA must provide updated OAs to the Courts throughout the project to ensure that the rental impact is fully disclosed during the authorization, design, and construction phases of the project. OAs signed by the proposed tenants committing to pay ROI rates are required because OMB has advised GSA that it will not advance projects without signed OAs.

Workbook Information: The following information is required to complete the ROI Workbook and prepare the OAs for signature for new construction.

Authorization: For projects in the planning stage that do not have a specific market location but are included in the CILP submission for design funding, the projected FAR rate used to perform the Hurdle Rate Test may be based on a recent FAR appraisal or on a market survey of recent comparable lease transactions in that market. The appraisal or market survey must be approved by the regional appraiser.

Design Funded: For projects that have been approved for design funding with an identified design package and location, the FAR rate used to perform the Hurdle Rate Test must be based on a current FAR appraisal effective as of the completion of construction of the Courts-occupied Property. The appraisal must be approved by the regional appraiser. A completed ROI Workbook and signed OAs must accompany the CILP submission.

Construction: For new construction, the ROI Workbook must be updated as construction costs change. The FAR rate used to perform the Hurdle Rate Test must be based on a current FAR appraisal effective as of the completion of construction of the Courts-occupied Property. New OAs must be generated and transmitted to the tenant for signature as acknowledgement of the change in Rent at least 6 months prior to the completion of construction, upon tenant occupancy, and after the reconciliation of construction costs.

Workbook Calculations for New Construction: The ROI Workbook performs the following ROI shell rate calculations:

1. Multiplies the shell investment base (capitalized shell investment plus land FMV or cost, whichever is applicable) by the 20-year OMB discount rate plus 1 percent (but not less than GSA's Hurdle Rate) using a 100 percent occupancy factor. The shell investment base includes the hard and soft construction costs as defined below in section IX, Hurdle Rate Test. If the land acquisition cost is known, it must be used as part of the shell

investment base. A current FMV of the land is required if land was obtained through donation or exchange and input into the Workbook.

The shell investment base does not include Building-Specific Amortized Capital (BSAC) Security and the amortized Tenant Improvement (TI) expenses, which are calculated and billed separately.

2. Deducts the parking revenue from the results of step 1. Parking revenue is calculated in accordance with paragraph E, Parking, in section IV below.
3. Divides the results by the building's total rentable square feet (rsf).

B. Substantial Rehabilitation

Whenever proposing the investment of capital in a FAR-appraised Courts-occupied Property, a Hurdle Rate Test must first be conducted to determine if the Property qualifies for ROI pricing. If the Property fails the Hurdle Rate Test, the ROI Workbook must be submitted and approved by RPAM to apply ROI pricing. Once approved by RPAM, OAs must be sent to the tenants and signed by them. The OAs must have 20-year terms and be non-cancelable. If the tenants are unwilling to pay ROI rates, GSA should consider whether to make the investment in the Property.

Workbook Information: The following information is required to complete the ROI Workbook for a substantial rehabilitation project.

In addition to the data inputs required by the Workbook, a current pre-project FMV is required to perform the ROI shell rate calculation and is used as part of the shell investment base. The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Value Appraisal Report issued nationally as part of the CILP. Regional appraisers must review the FMV appraisal and consult with the RPAM staff, including the Asset Valuation program lead, before using it as part of the ROI Hurdle Rate Test. The FAR appraisal must reflect the post-project rent.

Design Funded: For projects that have been approved for design funding with an identified design package, the FAR rate used to perform the Hurdle Rate Test must be based on a current FAR appraisal effective as of the completion of the project. The appraisal must be prepared in accordance with the FAR Review Process. A completed ROI Workbook and signed OAs must accompany the CILP submission.

Construction: For new construction, the ROI Workbook must be updated as construction costs change. The FAR rate used to perform the Hurdle Rate Test must be based on a current FAR appraisal effective as of the completion of construction of the project. New OAs must be generated and transmitted to the tenant for signature as acknowledgement of the change in Rent at least 6 months prior to the completion of construction, upon tenant occupancy, and after the reconciliation of construction costs.

Workbook Calculations for Substantial Rehabilitation projects: The ROI shell rate is comprised of a return on the current FMV of the land and building (the Property) and the capital reinvestment expense.

The Workbook performs the following ROI shell rate calculations:

1. Adds the reinvestment expense to the FMV of the Property and multiplies the results by the 20-year OMB discount rate plus 1 percent (but not less than GSA's Hurdle Rate) using a 100 percent occupancy factor.

The shell investment base does not include BSAC and the amortized TI expenses, which are calculated and billed separately.

2. Deducts the parking revenue from the results of step 1. Parking revenue is calculated in accordance with paragraph E, Parking, in section IV below.
3. Divides the results by the building's total rsf.

III. Converting From FAR-Based to ROI Pricing

Underperforming FAR-appraised Courts-occupied Properties that must be retained to meet the Court's occupancy requirements or meet GSA's asset management goals may be converted to this ROI pricing methodology. The property must fail the Hurdle Rate Test to qualify for ROI pricing and the region must receive concurrence from RPAM on the ROI Workbook to apply ROI pricing. The AOUSC must also sign OAs to demonstrate its agreement with the conversion.

Workbook Calculations for Conversions from Appraisal-Based to ROI Pricing:

The ROI Workbook performs the following ROI shell rate calculations:

1. Multiplies the FMV of the Courts-occupied Property by the 20-year OMB discount rate plus 1 percent (but not less than GSA's Hurdle Rate) using a 100 percent occupancy factor. The OA term is 20 years, noncancelable.
2. Deducts the parking revenue from the results of step 1. Parking revenue is calculated in accordance with paragraph E, Parking, in section IV below.
3. Divides the results by the building's total rsf.

IV. Calculating Rates

A. Amortization Term and Rate for Tenant Improvements

TIs up to the allowance limits (whether set using the general and customization allowances, cost estimates, or benchmarks, or by the asset manager) for new construction or substantial rehabilitation projects must be amortized on the basis of actual cost over the useful life of the TIs as determined by GSA, not to exceed 10 years. The amortization period may be increased to 20 years with the approval of the regional portfolio director.

TIs in properties converted from appraisal-based to ROI pricing and continuing occupancies are to be amortized over the OA term. However, in no case can the amortization term extend beyond the useful life of the TIs as determined by GSA. The rates are calculated in the OA Tool using the current 10-year Treasury Bond Rate plus 12.5 basis points, as established by GSA.

B. Operating Rate

The Operating Rate for a Courts-occupied Property is calculated in the ROI Workbook. It is the sum of the Property's estimated:

- Annual operating expenses,
- Field office General and Administrative (G&A) expenses, and
- National and regional G&A expenses.

The national and regional G&A component of the operating rate may not exceed 10 percent of the full service ROI Rent. (Note: Full service ROI Rent is the sum of the ROI shell rate and the estimated annual operating expenses per rentable square foot. G&A is not included in the full service ROI Rent.)

The operating expenses included in this rate must be calculated in the same manner as outlined in Clarification #15 where only the expenses for the standard 10-hours of operation, Monday through Friday, excluding Federal Holidays are included in the rate. Operating expenses for the remaining hours are not included in the rent and are billed on a reimbursable basis.

1. Establishing Base-Year Operating Rate and Processing Escalations:

- **New Location:** The first year's projected operating rate with no expense history is estimated based on similar-type services for existing operating expenses or service contracts at comparable locations for a 12-month period (see example below) plus estimated applicable G&A expenses. This amount is escalated annually by the published OMB inflation rate to set each future fiscal year's operating rate. This estimate may be based on the appraised operating rates or estimated operating expenses at similar-type buildings.

- Existing Location:** The first year’s projected operating rate is estimated based on a full fiscal year of operating expenses for that Property plus estimated applicable G&A expenses. If, at the time the operating rate is being calculated, a full fiscal year of operating expense history is not available, then a recent 12-month period (e.g., September of the previous year through August of the current year) may be used to make the calculations. The operating rate for each future fiscal year is estimated by increasing the prior-year actual amount by the current OMB inflation rate.

Example of New Location Operating Rate Calculation

	9/30/2008	FY09	FY10	FY11
Operating Rate/RSF:	\$ 5.75	\$ 5.87	\$ 5.98	\$ 6.10
OMB Inflation Rate (3-year):		2.00%	2.00%	2.00%
Actual Operating Rate/RSF:				<u>\$ 6.00</u>
Overage/(Underage) Billing/RSF				<u>\$ 0.10</u>

2. Methodology for Annually Reconciling Operating Rent [RESERVED]: To be established with the Office of Budget and Financial Management.

C. BSAC Rate

The Workbook does not include BSAC charges. The BSAC is calculated and billed in accordance with GSA pricing policy and a separate spreadsheet is available on GSA’s Rent Bill Management (RBM) Web site to assist in making the computation.

D. Joint Use Rate

Joint Use rent is apportioned among customer agencies on the basis of space assigned as outlined in the Pricing Desk Guide. The formula to calculate the Joint Use rent is the combined ROI shell and operating rates plus either the actual cost of Joint Use TIs or the General allowance plus a Customization Tier 3 allowance if actual cost information is not available.

If the actual cost of Joint Use TI is used, the spreadsheet amortization schedule must be maintained in the Related Documents section of the Asset Business Plan (ABP). Joint Use TIs are normally amortized over 10 years, but may be increased to 20 years with the approval of the regional portfolio director. In no case can the amortization term extend beyond the useful life of the TIs. The TI amortization rate is the 10-year Treasury Bond rate plus 12.5 basis points.

E. Parking Rate

Each tenant's assigned inside and outside parking spaces are charged separately and appear as separate line items on the tenant's rent bill. The additional costs to make a parking area secure are considered BSAC charges and amortized into the customer's rent bill, as outlined in paragraph C, BSAC Rate, of section III above.

The Workbook adjusts the ROI shell rate downward to account for the parking revenue, so that the total return for the Property does not exceed the 20-year OMB discount rate plus 1 percent (but not less than GSA's Hurdle Rate). The number of parking spaces may change during the occupancy term. The parking rates for both surface and structured parking are set using a FAR appraisal and will be reset along with the shell rate reset once every 5 years. The regional appraiser may develop a parking rate in accordance with alternative procedures outlined in the current FAR instructions if there are no market comparables on which to base an appraisal. Changes in parking require an amended OA.

F. Rate for Antenna Sites, etc.

Tenants that occupy space in ROI properties are not charged for antenna sites or other ancillary spaces (ware yards, boat docks, etc.). However, agencies that do not occupy space in the building are charged prevailing antenna charges in accordance with the Pricing Desk Guide.

There will be no rent charge for additional antennas added by building tenants during occupancy if the tenant's rent is set based on ROI pricing. Tenants are responsible for all costs associated with the installation, maintenance, and removal of each antenna.

V. Exceptions to ROI Pricing

Generally, ROI pricing applies to all tenants in an ROI Courts-occupied Property. However, in unique circumstances, PBS may individually excuse non-court tenants in Courts-occupied Properties from ROI pricing. This may be done if the total rental rate (including TI) for the tenant, using ROI pricing, is appreciably more (20 percent plus) than the total rental rate the non-court tenant would pay in a lease for space of comparable quality. Rent for these non-court tenants is not subject to ROI pricing. Rent for tenants excused from ROI pricing may be set by FAR appraisal or as negotiated with the tenant and approved by the regional portfolio director using the backfill procedures outlined in section VIII below.

VI. Adjusting ROI Shell Rate for Additional Capital Improvements

Post occupancy capital shell investments (over \$50,000) and contract claim awards must be included in the ROI calculations. The additional charges for these improvements may begin after the agency has been given adequate time to budget for the increased rent. The regions must track all capitalized shell improvements over \$50,000, and an Excel spreadsheet must be maintained in the Related Documents section of the Asset Business Plan for this purpose.

The rent will be adjusted over the term of the OA to reflect these costs using the ROI Workbook as follows.

- **Initial Adjustment:** It will be necessary to calculate the adjustment after the initial 3 years, in order to allow time for budgeting for a shell rent adjustment in the sixth year of the OA term. This system is required so that the rent adjustment is captured in the Rent Estimate for Year 6.
- **Successive 5-year intervals:** Except for the last 6 years of the OA term, Capital improvements made during successive 5-year periods will be added to the adjusted asset basis to calculate the new ROI Rental Rate. Improvements made during years 14-20 of the OA term are not added to the FMV appraisal because:
 1. The cost of the capital reinvestment for years 14-20 is considered incorporated into the new 20-year FMV appraisal, especially when it improves the effective age of the Property and extends its useful life.
 2. Including these costs might double count the value of the investment in years 14-20.

The following chart outlines how rent will be adjusted to include capital improvements completed over the term of the occupancy.

Capital Improvement Calculation Period	Rent Adjustment Starts
Years 1-3	Year 6
Years 4-8	Year 11
Years 9-13	Year 16
Years 14-20	Capital improvements made during the last 6 years of the OA term are considered in the 20-year FMV appraisal.

- **Additional Capital Improvement Workbook Calculations:** The Workbook uses the following formula to compute the adjusted ROI shell rate:
 1. Multiplies the current 20-year OMB discount rate plus 1 percent (but not less than GSA’s Hurdle Rate) by:
 - the initial hard and soft costs of construction (less BSAC and TIs) for newly constructed properties or
 - the pre-project FMV of the Property plus the initial hard and soft costs of construction for substantial rehabilitation projects, or
 - the initial FMV of the Property that was used in the conversion.
 2. Multiplies the capitalized shell improvements (capitalized vs. expensed items are identified by IRIS Work Category) that were made to the Property for the capital improvement calculation period (see chart above) by the 20-year OMB discount rate plus 1 percent (but not less than GSA’s Hurdle Rate).
 3. Adds steps 1 and 2 and deducts the annual parking revenue from the results. Parking revenue is calculated in accordance with paragraph E, Parking, in section IV, “Calculation of Rates” above. The calculation applies a 100 percent occupancy factor.
 4. Divides the results of step 3 by the building’s total rsf.

VII. Follow-on OA Terms

Although the MOA requires that for new construction and conversions of existing ROI Properties (list included in the MOA) the Property remain ROI-priced for the follow-on term, the regions must perform a Hurdle Rate Test so that GSA may analyze the impact of this requirement. The follow-on ROI shell rent will be calculated on the FMV of the Property in its fee simple as-is condition, assuming 20 years of continued occupancy (reference MOA). Copies of the Workbook and appraisals must be sent to AOUSC.

For substantial rehabilitations and any Courts-occupied Properties not covered by the MOA, the region will conduct a Hurdle Rate Test to determine if the Property qualifies for FAR or ROI Pricing.

VIII. Treatment of Vacancy, Outlease, and Backfill Mid-Term Occupancy

A. Vacancy

The Courts have agreed to pay for all vacant space (including TI rates and parking rates) in ROI-priced Courts-occupied Properties. GSA will minimize operating expenses in vacant areas as the specific situation warrants. The ROI rent for the vacant space is to be calculated and billed using a separate OA. The vacant space will be assigned to Agency/Bureau Code 1022. The vacancy will be recalibrated

simultaneously with the resetting of the ROI shell rate to recover additional capital reinvestment as outlined in section VI, Recovering Additional Capital Investment, above.

B. Outleasing to Non-Federal Tenants

If the ROI rate is not greater than 20 percent above market, then the ROI rate may be charged. Otherwise, the rental rate must be based on a FAR appraisal and not on the ROI shell rate.

C. Backfill

Backfill occupancies by non-Court Federal tenants with a maximum term of 5 years may be charged a reduced rental rate in accordance with the Pricing Desk Guide. The termination date for the backfill tenant's OA must not surpass the OA termination date for all of the other tenants in the building to ensure that all of the building rents adjust uniformly. There may be exceptions to this requirement, however, due to agency program needs.

The Courts will pay for the net difference between the ROI shell rate and the reduced rate provided to the backfill tenants. A billing adjustment for the difference is to be included in the OA for vacant space assigned to the Courts, or to a new OA if no vacancy exists. The backfill tenant will pay the amortization for their TIs in accordance with section IV, Paragraph B "Amortization Term and Rate of Tenant Improvements" above.

IX. Hurdle Rate Test

The Hurdle Rate Test must be used for all new and continuing occupancies. The formula for the Hurdle Rate Test is provided below.

Hurdle Rate Test

1. Multiply the first year's appraised Fair Annual Rent (FAR) shell rate (if it's a conversion use the As-Is Rate) net of appraised operating expenses by the building's total rentable square footage. Add the annual FAR of parking.

2. Divide the result by one of the following appropriate values:

- For New Construction: the hard and soft costs of construction based on a cost estimate, benchmark, or actual costs.

Hard costs include:

- Bricks and mortar expense (labor, materials, and equipment).
- Contractor overhead and profit.
- Land acquisition/FMV of the land.
- Escalations and other contingencies (i.e., design and construction contingencies applied in calculating the Estimated Construction Cost (ECC)).

Soft costs include:

- Architectural, engineering, and construction management services.
- Legal services and public hearings.
- Feasibility, market and environmental studies.
- Financing, relocation, and site remediation.

- For Substantial Rehabilitation: The FMV of the Property (i.e., land and building) plus the rehabilitation expense (see hard and soft costs definitions above).

- For Properties Converted to ROI and Continuing Occupancies: The FMV of the Property.

Note: Exclude BSAC charges (e.g.; progressive collapse, blast mitigation and window glazing) and TIs from the calculation.

3. If the quotient is less than GSA's Hurdle Rate (currently 6 percent), the FAR does not constitute an adequate return on investment for the Property and it qualifies for ROI pricing. GSA may adjust its Hurdle Rate as necessary.

Effective Date: February 20, 2009

Purpose:

Pricing Policy Clarification #27 updates Return on Investment (ROI) pricing for Federally Owned Properties.

Existing Desk Guide Language:

The existing desk guide language resides in Pricing Policy Modification #11, Return on Investment (ROI) Pricing, to the Pricing Desk Guide.

Clarification:

The ROI pricing policy has been modified. This pricing policy clarification along with the pricing policy clarification for ROI pricing for Courts-occupied Properties replaces Modification #11 in its entirety.

The following policy addresses Return on Investment (ROI) pricing for federally owned Properties. The ROI pricing policies for Courts-occupied Properties and U.S. General Services Administration's (GSA) land ports of entry (LPOEs) are addressed in separate guidance.

GSA's preferred method of determining Rent for its federally owned Properties is by Fair Annual Rental (FAR) appraisal. ROI pricing is a means of pricing that may be employed when FAR pricing does not meet GSA's minimum return objectives. GSA's minimum return requirement is currently 6% but may be adjusted by GSA as necessary. ROI pricing cannot be applied to space leased by GSA to house Federal tenancies.

Evaluating ROI Applications and Calculating ROI Rates

For each proposed ROI pricing application, two tools, contained in the same ROI Excel Workbook, must be completed to establish eligibility for ROI pricing and to calculate the ROI shell rate.

1. **The Hurdle Rate Test** is required in all cases. GSA will study the results of the Hurdle Rate analysis to evaluate the applicability of the ROI pricing methodology. The Hurdle Rate Test is incorporated into the ROI Workbook and is more fully discussed in Section VIII below.
2. **The ROI Calculation** [not separate, but part of the same Workbook] must be used to develop the ROI shell rate for an Occupancy Agreement (OA). The Workbook has been designed to calculate a rate that meets GSA's current Hurdle Rate.

All ROI Workbooks for Capital Investment and Leasing Program (CILP) ROI candidates, for conversions of appraisal-based pricing to ROI pricing, and for establishing billing of ROI-priced space must be completed and transmitted to RPAM along with source documentation for review and concurrence before transmitting OAs with ROI rates to the tenants for signature. Upon construction completion, ROI Workbooks and updated source documentation to be used as the source for billing the customers must be submitted to and approved by Office of Real Property Asset Management (RPAM). The most recent Office of Management and Budget (OMB)

discount rate should be used in early calculations of the ROI shell rate and corresponding iterations of the OA. However, the OMB discount rate used to establish the initial five-year shell rate in the tenant's bill must be set in an OA in sufficient time to allow an agency to budget for its rent, typically 18 to 24 months.

The decision on whether ROI pricing is appropriate for a new construction or substantial rehabilitation project must be made before submission of the construction prospectus.

The ROI Workbook has been designed to prevent the calculated shell rate from dropping below GSA's Hurdle Rate. The ROI term for federally owned Properties is 10 years. The ROI shell rate is fixed for 5 years and reset at the mid-point of the 10-year term to include a return on capital improvements completed during the intervening period. This process is outlined in the Adjusting the ROI Shell Rate for Additional Capital Improvements Section below.

Once an asset is ROI-priced, GSA cannot change back to appraisal-based pricing during the OA term. ROI pricing provides the tenant and PBS with a predictable rental rate over the occupancy term.

OA Terms and Requirements

The OA cannot exceed a 10-year term. The OA is non-cancelable if the Property meets the non-cancelable criteria outlined in the Pricing Desk Guide. GSA must provide updated OAs to the tenant agencies throughout the project to ensure that the Rent impact is fully disclosed during the authorization, design, and construction phases of the project. OAs signed by the proposed tenants committing to pay ROI rates are required because OMB has advised GSA that they will not advance projects without signed OAs

I. Conditions for ROI Pricing

The Property may be a candidate for ROI pricing if one of the following three conditions exists:

A. Condition One:

For new construction (BA 51) or substantial rehabilitation (BA 55) when GSA is expending capital to construct, modernize, or substantially rehabilitate a building and the appraisal-based rental rate does not meet GSA's return objectives as determined using the Hurdle Rate analysis.

B. Condition Two:

For buildings located in markets where it is infeasible or impractical to appraise the FAR rate because there are few or no market comparables upon which to base a market rate. The lack of comparables may be due to the remoteness of the location or because of special features of construction and use that significantly depart from conventional real estate use patterns.

C. Condition Three:

For newly acquired Properties, or Properties already in the inventory, which do not meet GSA's minimum return objectives as priced by FAR appraisal. The following four criteria

must be met in order to convert an asset from appraisal-based to ROI pricing:

- A Hurdle Rate Test indicates the FAR does not meet GSA's minimum return requirement.
- PBS determines that it is in the Government's best interest to retain the building due to extensive build out or specialized construction that would be too expensive to replicate in leased space.
- The total rental rate for any tenant, using ROI pricing, cannot be appreciably more than the total rental rate that tenant would pay were PBS to enter into a lease for similar space to house the tenant. The lowest acceptable lease alternative is quality-leased space that meets the tenant's needs. In some cases, this will mean existing vacant space in the market. In other cases, it may mean lease construction.
- To satisfy the tenant's space requirement, PBS will retain the asset and make capital investments as needed. The tenant's agreement to pay ROI Rent is documented by a signed OA.

II. Calculation of the ROI Shell Rate

The following steps must be used to establish the ROI shell rate once GSA determines that a Property is eligible for ROI pricing. This is to guide the practitioner on how to prepare iterations of the OA.

A. New Construction: The ROI shell rate for new construction is comprised of a return on the building's shell investment base and the value of the land. The value of the land can either be determined from its recent acquisition cost or by Fair Market Value (FMV) appraisal. If the acquisition cost is known, it must be used as part of the shell investment base. If the land was obtained through donation or exchange, then a FMV appraisal is required to establish the land value which is to be input into the Workbook.

- **Workbook Information:** The following information is required to complete the ROI Workbook and prepare the OA for signature.

Authorization: For projects in the planning stage that do not have a specific market location, but are included in the CILP submission for design funding, the projected FAR rate used to perform the Hurdle Rate Test may be based on a recent FAR appraisal or on a market survey of recent comparable lease transactions in that market. The appraisal or market survey must be approved by the regional appraiser.

Design Funded: For projects that have been approved for design funding with an identified design package and location, a current FAR appraisal effective as of the completion of construction of the Property must be used to determine the income for the Hurdle Rate Test. The appraisal must be approved by the regional appraiser. A completed ROI Workbook and signed OAs must accompany the CILP submission.

Construction: For new construction, the ROI Workbook must be updated if construction

cost changes. New OAs must be generated and transmitted to the tenant for signature as acknowledgement of the change in Rent at least six months prior to the completion of construction; upon tenant occupancy; and after the completion of construction cost reconciliation.

- **Workbook Calculations for New Construction Projects:** The ROI Workbook performs the following ROI shell rate calculations:
 1. Multiplies the shell investment base (capital shell investment plus land cost) by the 10-year OMB discount rate plus 1% (but not less than GSA's Hurdle Rate). The shell investment base includes the hard and soft construction costs as defined below in Section VIII - Hurdle Rate Test. The shell investment base does not include Building-Specific Amortized Capital (BSAC) Security and the amortized Tenant Improvement (TI) expenses, which are calculated and billed separately.
 2. Deducts the parking revenue from the results of step #1. Parking revenue is calculated in accordance with Paragraph E - Parking in Section III below.
 3. Divides the results by the current fully utilized occupancy rate assumed by the Federal Real Property Council and reflected in the Performance Assessment Rating Tool (PART) for Asset Management, which is 95%.
 4. Divides the results by the building's total rentable square feet (rsf).

B. Substantial Rehabilitation: FAR-appraised Properties in which substantial renovation projects are being proposed may qualify for ROI pricing if they fail the Hurdle Rate Test. Once the ROI Workbook is approved by RPAM, OAs must be sent to the tenants and signed by them. The OAs must have 10-year terms and may be non-cancelable if the Property meets the non-cancelable criteria outlined in the Pricing Desk Guide. Should the tenants refuse to pay ROI rates, GSA should consider whether to make the investment in the Property.

- **Workbook Information:** In addition to the data inputs required by the Workbook, a current pre-project FMV is required to perform the ROI shell rate calculation and is used as part of the shell investment base. The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Value Appraisal Report issued nationally as part of the CILP. Regional appraisers must review the FMV appraisal and consult with the RPAM staff, including the Asset Valuation program lead, before using it as part of the ROI Hurdle Rate Test. The FAR appraisal must reflect the post-project rent.

- **Workbook Calculations for Substantial Rehabilitation Projects:** The ROI shell rate is comprised of a return on the current FMV of the Property (land and building) and the capital investment expense. The FMV appraisal must be prepared using RPAM's guidelines.

The Workbook performs the following ROI shell rate calculations:

1. Adds the capital investment expense to the FMV of the Property and multiplies the

results by the 10-year OMB discount rate plus 1% (but not less than GSA's Hurdle Rate). The shell investment base does not include BSAC Security and the amortized TI expenses, which are calculated and billed separately.

2. Deducts the parking revenue from the results of step #1. Parking revenue is calculated in accordance with Paragraph E - Parking in Section III below.
3. Divides the results of step # 2 by the current fully utilized occupancy rate assumed by the Federal Real Property Council and reflected in the Performance Assessment Rating Tool (PART) for Asset Management, which is 95%.
4. Divides the results of step #3 by the building's total rentable square feet (rsf).

C. Conversions from FAR-Based to ROI Pricing: Underperforming FAR-appraised Properties that must be retained to meet a tenant's occupancy requirements or meet GSA's asset management goals may be converted to this ROI pricing methodology. These Properties must meet the four conditions outlined in Section I, Paragraph C above. The Property must fail the Hurdle Rate Test to qualify for ROI pricing and the region must receive concurrence from RPAM on the ROI Workbook to apply ROI pricing. The tenant agencies must also sign OAs to demonstrate their agreement with the conversion.

The OA term for a Property converted from FAR-based to ROI pricing is 10 years. The Property must be re-tested for ROI eligibility 2 years prior to the end of each 10-year ROI term and the OA must clearly indicate when re-testing will occur. The outcome of the re-test will determine whether the Property will continue to be priced using ROI rates or will revert to FAR rates. If the Property is converted back to FAR pricing, the unamortized balance of each tenant's TIs will be included in the OA and continue to amortize until the initial amortization term expires. There may be exceptions due to agency program needs.

A tenant that elects to vacate before the OA term expires will not be liable for the remaining OA rent after vacating the space if the OA is cancelable. However, the tenant will be responsible for the unamortized balance of any TIs. Tenants are liable for both rent and the unamortized balance of any TIs for the remainder of the OA term if they break a non-cancelable OA.

- **Workbook Information:** In addition to the required inputs in the Workbook, a current FMV is required to perform the ROI shell rate calculation. The FMV appraisal must be prepared using the current scope of work and timing required for the GSA Narrative Value Appraisal Report issued nationally as part of the CILP. Regional appraisers must review the existing FMV appraisal and consult with the RPAM staff, including the Asset Valuation program lead, before using it as part of the ROI Hurdle Rate Test.
- **Workbook Calculations for Conversions from FAR-Based to ROI Pricing:** The Workbook makes the following calculations:

1. Multiplies the FMV (RPAM appraisal instructions must be used) of the Property by the 10-year OMB discount rate plus 1% (but not less than GSA's Hurdle Rate).
2. Adds any capital shell improvements (capitalized vs. expensed items are identified by IRIS Work Category) with funds obligated or currently under construction that are not reflected in the FMV. Multiply the improvements by the 10-year OMB discount rate plus 1% (but not less than GSA's Hurdle Rate).
3. Deducts the annual parking revenue from the sum of steps #1 and #2 above. Parking revenue is calculated in accordance with Paragraph E - Parking in Section III below.
4. Divides the results of step #3 by the current fully utilized occupancy rate assumed by the Federal Real Property Council and reflected in the Performance Assessment Rating Tool (PART) for Asset Management, which is 95%.
5. Divides the results of step #4 by the building's total rentable square feet (rsf).

III. Calculation of Other Rates

A. Amortization Rate for Tenant Build-Out: Tenant improvements up to the allowance limits (whether set using the general and customization allowances, cost estimates, benchmarks, or by the asset manager) for new construction or substantial rehabilitation projects must be amortized on the basis of actual cost. The amortization period is 10 years but may be increased to 20 years with the approval of the regional portfolio director.

Tenant Improvements in Properties converted from appraisal-based to ROI pricing and continuing occupancies are to be amortized over the OA term. However, in no case can the amortization term extend beyond the useful life of the TIs as determined by GSA. The rates are calculated in the OA Tool using the 10-year Treasury Bond Rate plus 12.5 basis points, as established by GSA.

B. Operating Rate

The Operating Rate is calculated in the ROI Workbook. It is the sum of the Property's estimated:

- Annual operating expenses,
- Field Office General and Administrative (G&A) expenses, and
- National and regional G&A expenses.

The operating expenses included in this rate must be calculated in the same manner as outlined in Clarification #15 where only the expenses for the standard 10 hours of operation, Monday through Friday, excluding Federal Holidays are included in the rate. Operating expenses for the remaining hours are not included in the Rent and are billed on a

reimbursable basis.

The national and regional G&A component of the operating rate may not exceed 10% of the full service ROI Rent. (Note: Full service ROI Rent is the sum of the ROI shell rate and the estimated annual operating expenses per rentable square foot. G&A is not included in the full service ROI Rent.)

1. Establishing Base Year Operating Rate and Processing Escalations:

- **New Location:** The first year’s projected Operating Rate is estimated based on similar type services for existing operating expenses, service contracts, or appraised operating rates at comparable locations for a full fiscal year (see example below) plus estimated applicable G&A expenses. If, at the time the Operating Rate is calculated, a full fiscal year of operating expense history is not available, then a recent 12-month period (e.g., September of the previous year through August of the current year) may be used to make the calculations. This amount is escalated annually by the published OMB inflation rate to set each future fiscal year’s Operating Rate.
- **Existing Location:** The first year’s projected Operating Rate is estimated based on the most recent full fiscal year of operating expenses for that Property plus estimated applicable G&A expenses. If, at the time the Operating Rate is calculated, a full fiscal year of operating expense history is not available, then a recent 12-month period (e.g., September of the previous year to August) may be used to make the calculations. The Operating Rate for each future fiscal year is estimated by increasing the prior year actual amount by the current OMB inflation rate.

	<u>Actual</u> 9/30/2008	<u>Projected</u> FY09	<u>Projected</u> FY10	<u>Rent Est</u> FY11
Operating Rate/RSF:	\$ 5.75	\$ 5.87	\$ 5.98	\$ 6.10
OMB Inflation Rate (3-year):		2.00%	2.00%	2.00%
Actual Operating Rate/RSF:				<u>\$ 6.00</u>
Overage/(Underage) Billing/RSF				\$ 0.10

2. Methodology for Annually Reconciling Operating Rent [RESERVED] To be established with the Office of Budget and Financial Management.

C. Building-Specific Amortized Capital (BSAC) Rate: The Workbook does not include BSAC security charges. The BSAC is calculated and billed in accordance with GSA policy, and a separate spreadsheet is available on GSA’s Rent Bill Management (RBM) website to assist in making the computation.

D. Rate for Joint Use Space: Joint Use rent is apportioned among customer agencies on the basis of space assigned as outlined in the Pricing Desk Guide. The formula to calculate the Joint Use rent is the combined ROI shell and operating rates plus either the actual cost of Joint Use TIs or the General allowance plus a Customization Tier 3 allowance if actual cost information is not available.

If the actual cost of Joint Use TI is used, the spreadsheet amortization schedule must be maintained in the “Related Documents” section of the ABP. Joint Use TIs are normally amortized over 10 years, but may be increased to 20 years with the approval of the regional portfolio director. In no case can the amortization term extend beyond the useful life of the TIs. The TI amortization rate is the 10-year Treasury bond rate plus 12.5 basis points.

E. Parking Rate: The inside and outside parking spaces assigned to each tenant are charged separately and appear as separate line items on the tenant’s Rent bill. The additional costs to make a parking area secure are considered BSAC charges and amortized into the customer’s rent bill, as outlined in paragraph C, BSAC Rate, of section III above.

The Workbook adjusts the ROI shell rate downward to account for the parking revenue, so that the total return for the Property does not exceed the 10-year OMB discount rate plus 1% (but not less than GSA’s Hurdle Rate). The number of parking spaces may change during the occupancy term. The parking rates for both surface and structured parking are set using a FAR appraisal and will be reset along with the shell rate once every 5 years. The regional appraiser may use the Marshall and Swift Cost Guide to develop a parking rate if there are no market comparables upon which to base an appraisal. Changes in parking require an amended OA.

F. Rate for Antenna Sites, etc.: Tenants that occupy space in ROI Properties are not charged for antenna sites, or other ancillary spaces (i.e., ware yards, boat docks, etc.). However, agencies that do not occupy space in the building are charged prevailing antenna charges in accordance with the Pricing Desk Guide.

There will not be a rent charge for additional antennas added by building tenants during occupancy if that tenant’s rent is set based on ROI pricing. Tenants are responsible for all costs associated with the installation, maintenance, and removal of each antenna and restoration of the building to pre-installation condition.

IV. Excusing Tenants from ROI Rent

ROI pricing applies to all tenants in a federally owned ROI Property. However, in unique circumstances, PBS may individually excuse tenants in federally owned Properties from ROI pricing on a case by case basis with approval from RPAM. This may be done if the total rental rate (including TI) for the tenant, using ROI pricing, is appreciably more (20 percent plus) than the total rental rate the tenant would pay in a lease for space of comparable quality. Rent for these tenants is not subject to ROI pricing. Rent for tenants excused from ROI pricing may be set by FAR appraisal or as negotiated with the tenant and approved by the regional portfolio director using the backfill procedures outlined in Section VII below.

V. Follow-on OA Terms

Two years prior to the expiration of the initial OA term for ROI-priced Properties, PBS regions must perform a Hurdle Rate Test using the current appraised FMV to determine if ROI is still the appropriate pricing method. The FMV appraisal must be prepared using the current scope and timing of work for the GSA Narrative Value Appraisal Report issued nationally as part of the CILP. Regional appraisers must review the existing FMV appraisal and consult with the RPAM staff, including the Asset Valuation program lead, before using it as part of the ROI Hurdle Rate Test. The effective date of the FMV appraisal must match the effective date of the FAR rate.

If the Property fails the Hurdle Rate Test, the region must prepare new OAs for the tenants using the ROI methodology. If the Property passes the Hurdle Rate Test, the region must prepare new OAs for the tenants using a recent FAR appraisal. The OA term for continuing occupancies is 10 years. The building OAs should be written with the same start and expiration dates. However, there may be exceptions due to agency program needs.

New TIs for continuing occupancies shall be amortized over the useful life of that TI as determined by GSA at the current 10-year Treasury Bond Rate plus 12.5 basis. The Operating Rate for continuing occupancies shall be calculated using the ROI Workbook. An amended OA must be sent to the affected agencies.

A tenant that elects to vacate before the OA term expires will only be liable for the OA rent for four months from the date the tenant notifies GSA that it is vacating the space, if the space is cancelable. However, the tenant will be responsible for the unamortized balance of any TIs. A tenant is liable for the full OA rent for the remainder of the OA term and the unamortized balance of any TIs if it vacates space under a non-cancelable OA.

VI. Adjusting Shell Rent for Additional Capital Improvements

Post-occupancy capital shell investments (over \$50,000) and contract claim awards must be included in the ROI calculations. The additional charges for these improvements may begin after the agency has been given adequate time to budget for the increased rent. The Regions must track all capitalized shell improvements over \$50,000 for this purpose.

The rent will be adjusted over the term of the OA to reflect these costs using the ROI Workbook as follows:

- **Initial Adjustment:** For rent estimate billing purposes, it will be necessary to calculate the adjustment after the initial three years, in order to allow time for budgeting for a shell rent adjustment in the sixth year of the OA term.
- **Successive 5-year intervals:** Capital improvements made during the final years (years 4–10) of the OA term are not added to the new 10-year FMV appraisal to derive the ROI Rental rate, because:

1. The cost of the capital reinvestment is incorporated into the new 10-year FMV appraisal, especially when it improves the effective age of the Property and extends its useful life.

The following chart explains how to treat capital improvements during the ROI term:

Capital Improvement Calculation Period	Rent Adjustment Starts
Years 1-3	Year 6
Years 4-10	Capital improvements made during the last six years of the OA term are valued in the 10-year FMV appraisal.

- **Additional Capital Improvement Workbook Calculations:** The Workbook uses the following formula to compute the adjusted ROI shell rate:

1. Multiplies the current 10-year OMB discount rate plus 1 percent (but not less than GSA’s Hurdle Rate) by:
 - the initial hard and soft costs of construction (less BSAC and TIs) for newly constructed properties or
 - the pre-project FMV of the Property plus the initial hard and soft costs of construction for substantial rehabilitation projects, or
 - the initial FMV of the Property that was used in the conversion.
2. Multiplies capitalized shell improvements (capitalized vs. expensed items are identified by IRIS Work Category) that were made to the Property for the first 3 years of the OA term by the 10-year OMB discount rate plus 1% (but not less than GSA’s Hurdle Rate).
3. Adds steps #1 and #2 and divides the results by the current fully utilized occupancy rate assumed by the Federal Real Property Council and reflected in the Performance Assessment Rating Tool (PART) for Asset Management, which is 95%.
4. Deducts the annual parking revenue from the results of step #3. Parking revenue is calculated in accordance with Section E - Parking in the “Calculation of Other Rates” section above.
5. Divide the results of step #4 by the building’s total rentable square feet (rsf).

VII. Treatment of Vacancy, Outlease, and Backfill Mid-term Occupancy

A. Vacancy: The ROI Workbook for non-court Federal buildings calculates the ROI shell rate based on the current fully utilized occupancy rate assumed by the Federal Real Property Council and reflected in the Performance Assessment Rating Tool (PART) for Asset Management, which is 95%. Actual vacancy is not billed to the tenants.

B. Outleasing to Non-Federal Tenants: If the ROI rate is not greater than 20% above market, then the ROI rate may be charged. Otherwise, the rental rate must be based on a FAR appraisal and not on the ROI shell rate.

C. Backfill: Backfill occupancies by Federal tenants with a maximum term of five years may be charged a reduced rental rate in accordance with the Pricing Desk Guide. The termination date for the backfill tenant's OA must not surpass the OA termination date for all of the other tenants in the building, to ensure that all of the building Rents adjust uniformly. There may be exceptions to this requirement, however, due to agency program needs. The rent for the other tenants will not be adjusted for the difference.

VIII. Hurdle Rate Test

The following test must be used for all new and continuing ROI occupancies:

Hurdle Rate Test

- Multiply the first year's Fair Annual Rent (FAR) shell rate (if it's a conversion, use the As-Is Rate) net of appraised operating expenses by 95% of the building's total rentable square footage (the current fully utilized occupancy rate assumed by the Federal Real Property Council and reflected in the Performance Assessment Rating Tool (PART) for Asset Management).
- Divide the result by one of the following appropriate values:

- **For New Construction:** the hard and soft costs of construction.

Hard costs include:

- bricks and mortar expense (labor, materials, and equipment)
- contractor overhead and profit
- land acquisition
- escalations and other contingencies (i.e. design and construction contingencies applied in calculating the Estimated Construction Cost (ECC))

Soft costs include:

- architectural, engineering, and construction management services
- legal services and public hearings
- feasibility, market, and environmental studies
- financing, relocation, and site remediation

- **For Substantial Rehabilitation:** The Fair Market Value (FMV) of the Property (i.e., land and building) plus the rehabilitation expense (see hard and soft costs definitions outlined above).
- **For Properties Converted to ROI and Continuing Occupancies:** The FMV of the Property.

Note: Exclude the BSAC charges (e.g. progressive collapse, blast mitigation and window glazing) and TIs from this calculation.

- If the quotient is less than GSA's Hurdle Rate (currently 6%), the FAR does not constitute an adequate return on investment for the Property and the Property qualifies for ROI pricing. GSA may adjust its Hurdle Rate as necessary.

ABP Capital Improvement Log

<u>Fiscal Year</u>	<u>Description of Capital Improvements</u>	<u>Amount</u>
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