



# CHAPTER 9:

## Renewal Options

<b>1. Overview</b> .....	<b>9-3</b>
<b>2. Renewal Option Definition</b> .....	<b>9-3</b>
a. Definition .....	9-3
b. Difference between Options Evaluated as Part of Original Lease Award and Options Evaluated After Lease Award.....	9-4
c. What to do if Offered an Unrequested Renewal Option as Part of the Original Procurement .....	9-5
<b>3. Seeking Longer Lease Terms through Renewal Options</b> .....	<b>9-6</b>
<b>4. Lease File Checklists for Renewal Actions</b> .....	<b>9-7</b>
<b>5. Steps for Exercising an Option</b> .....	<b>9-10</b>
a. Confirm Continuing Need.....	9-10
b. Confirm Prior Evaluation .....	9-10
c. Consider Lessor’s Past Performance and Adequacy of Current Lease Language .....	9-10
d. Document National Environmental Policy Act (NEPA) Compliance and Floodplain Check .....	9-11
e. Prepare Acquisition Plan.....	9-11
f. Determine Scoring Classification .....	9-11
g. SAM.gov Advertisement/Posting .....	9-12
h. Perform Market Analysis.....	9-12
i. Make Fair and Reasonable Price Determination .....	9-12
j. System for Award Management (SAM).....	9-13
k. Prepare Occupancy Agreement.....	9-13
l. Other than Full and Open Competition .....	9-13

m. Confirm Funds Availability.....	9-14
n. Preparing an Administrative Lease Amendment.....	9-14
o. Provide Notice to Lessor.....	9-14
p. Process the Action.....	9-15
q. Distribute Lease Amendment.....	9-15
r. Post Redacted Justification.....	9-15
<b>6. Steps for Adding an Option Post-Award or Negotiating a Pre-Existing/Unpriced Option.....</b>	<b>9-16</b>
a. Acquisition Planning.....	9-16
b. Advertisement (Contract Opportunities).....	9-16
c. Other than Full and Open Competition.....	9-16
d. Negotiations.....	9-16
e. Lease Amendment Adding Option/Establishing Pricing.....	9-17
f. Scoring.....	9-17
g. Provide Notice to the Lessor.....	9-17
h. Post Redacted Justification.....	9-17
i. Additional Steps.....	9-17

## 1. Overview

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A renewal option allows the Government to continue a lease upon specified terms and conditions, including lease term and rent. Renewal options can be valuable assets in times of increasing market rents or when increased demand results in limited vacancies. The right to renew must be provided in the lease or a subsequent lease amendment.

This chapter provides guidance on the difference between options that were evaluated as part of the original lease award and those that are evaluated post-award and outlines the steps that must be taken before the option may be exercised by the Government.

## 2. Renewal Option Definition

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### a. Definition

The Federal Acquisition Regulation (FAR) defines an option as “a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional supplies or services called for by the contract, or may elect to extend the term of the contract.” General Services Acquisition Regulation (GSAR) Part 570.102 defines a lease renewal (option) as “the right, but not the obligation of the Government to continue a lease upon specified terms and conditions, including lease term and rent.”

The Government’s right to exercise an option should be a unilateral right (meaning that the lessor’s agreement is not required in order for the Government to exercise the option) if the option is negotiated as part of a bi-lateral lease award. However, in certain instances, such as those requiring further evaluation (ex. where price has not been determined, or a priced option that is added after lease award) additional negotiations followed by a bilateral agreement are required before the option can be exercised.

Lessors in private industry frequently use renewal options as a way of encouraging existing tenants to remain in the current space without requiring the parties to enter into a lengthy, protracted renegotiation process. Tenants use them to benefit from pre-set longer term rental rates without a contractual commitment until such time as the renewal option is exercised.

Lease renewal options are especially valuable to the Government when there is a continuing need for the space. GSA may include renewal options in leases when doing so is considered to be in the Government’s best interest, as outlined under “Considerations,” in Paragraph 3 of this chapter, below.

As noted in this chapter, the LCO must provide the lessor timely written notice of the government’s intent to exercise the renewal option, as

#### Termination Rights

Always check the original lease to confirm whether termination rights continue through the renewal period. Generally, unless otherwise stated, existing termination rights continue through the renewal period.

#### Timely Exercise of Option

Once the time period for exercising an option has passed, the option is no longer viable, although the option may still be exercised bilaterally if the Lessor agrees.

stated in the lease contract or amendment. If the Government fails to timely exercise an option, the right may be lost.

Written notice to the lessor of the exercise of the option is typically set at 90 to 180 days before term expiration, but will vary from lease to lease.

### **Caution: Prospectus-Level Options**

If the net annual rent for the option period exceeds the prospectus threshold and the option was not covered by an earlier prospectus, matching prospectus resolutions must be received before exercising the option. To exercise options for prospectus-level leases, see the Leasing Desk Guide Chapter 11, Prospectus-Level Leases, and in all cases, consult with the Office of Portfolio Management and Customer Engagement, Capital Assessment and Allocation Division.

## **b. Difference between Options Evaluated as Part of Original Lease Award and Options Evaluated After Lease Award**

Renewal options fall into two categories: those that are evaluated at the time of lease award, providing the Government with a unilateral right to exercise and those that are evaluated later (either by adding an option after lease award or further negotiating an unpriced option added at lease award). The procedures for exercising these options are different, depending upon which type of option exists under the lease contract. The key to understanding the differences lies in the original lease procurement. Options that are evaluated at lease award are those that were sought as part of the original procurement. If the option was not required as part of the original procurement, the option is evaluated post-award, before the option is exercised. Note that there are fewer steps required to exercise options that were evaluated as part of the original lease award.

### **Adding Options - Timing**

Caution: Options added too soon after lease award could be considered a cardinal change to the contract.

### **Option Evaluated at the Time of Lease Award (Pre-Award)**

An evaluated option exists when the solicitation for the original procurement required a renewal option as part of the offer submission and the option was considered in the price evaluation for

the lease award. All of the relevant lease project file documentation must reflect the inclusion of the option, including the following:

- Advertisement
- Justification for Other than Full and Open Competition (Justification) or memorandum (for actions at or below SLAT), if applicable
- Solicitation for Offers (SFO)/Request for Lease Proposals (RLP)
- Price negotiation memorandum (PNM) or the Lease Action Summary (for actions at or below SLAT)
- Present value analysis (PVA) spreadsheets.

Note that, if the Government requests a renewal option under the RLP, all offerors must submit a priced option as part of their proposal and any offeror who fails to submit an option shall be considered non-responsive by the LCO. Option pricing must be included as part of the PVA (or, for a succeeding or superseding lease, as part of the Justification's cost benefit analysis (CBA)).

### Option Evaluated After Lease Award and Prior to Exercising (Post-Award)

Not all renewal options are evaluated at the time of lease award. In some cases, a renewal option is not required by the RLP, yet an offeror may decide to include one as part of their proposal. The option is not evaluated as part of the original lease award and it must not be included as part of the PVA to determine the lowest priced offeror or otherwise considered as part of the lease award. If the offeror is determined to be the successful offeror (again, excluding the option pricing as part of the PVA), the LCO may elect whether to include the priced option under the final awarded lease. See Part 2.c below for additional guidance regarding what to do if offered an unrequested renewal option during a lease procurement.

Unpriced renewal options, e.g., stated as "90% of market price" or "TBD" should be avoided, as these require further negotiation and cannot be exercised by the Government unilaterally.

Finally, there may be circumstances where an option was never sought by the original RLP or offered by the awardee, but the Government later determines during the lease term that it is in the best interest to obtain a priced renewal option. These "added" options are more fully described under Part 6.

### c. What to do if Offered an Unrequested Renewal Option as Part of the Original Procurement

An offeror may include a renewal option that was not requested by the RLP. In all instances, the renewal option offered by the offeror, unless required of all offeror's should be treated as an unevaluated option, whether or not it is included in the original lease award. Should the offeror include a gratuitous renewal option, it is important for the LCO to consider the following during the lease procurement:

- Attempt to negotiate a better renewal rate.
- Do not include the option in the present value analysis (PVA).
- Do not include the option in the evaluation and selection of the awardee.

#### Unusual or Compelling Urgency:

Leases over SLAT using Unusual and Compelling Urgency are limited to 1 year (including options) unless a class justification exists or the Head of the Contracting Activity (HCA) has signed a Determination and Finding of Exceptional Circumstances. See LDG Chapter 23 for additional guidance.

- Clearly state in the PNM or Lease Action Summary (for actions at or below SLAT) that the option was not included in the PVA.
- If below prospectus, include the option in the scoring calculation if award is recommended to that offeror.
  - If scored as an operating lease, include the option in the lease.
  - If scored as a capital lease, do not include the option in the lease.
- Alternatively, amend the RLP to require a renewal option from ALL offerors, which would then result in this being an EVALUATED renewal option (refer to Part 5 of this chapter).

## 3. Seeking Longer Lease Terms through Renewal Options

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Renewal options offer an approach for the Government to obtain longer lease terms and achieve rental rates significantly below future market rental rates with minimal risk to the Government, and without exceeding the statutory 20 year limit on lease procurement authority. Multiple successive options can be valuable when future rental rates rise. Conversely, if the lease is awarded at the high-end of a market cycle, renewal options allow the Government the opportunity to forego exercising the renewal option at a high rate and either renegotiate the option through a bi-lateral amendment or seek a replacement lease.

Options may be included as part of the original lease procurement beyond a 20 year lease term, so long as, at the time of exercising the option, the remaining term left on the lease (including the exercised option) does not exceed 20 years.

**Example: A 20 year lease was executed that included one 5-year option. If it is decided to exercise the option on year 18 of the lease, the option may be exercised, since the remaining full lease term, at the time of exercising the option, will be 7 years (2 years remaining on the original lease term + 5 year option term = 7 years), which is well below the 20 year limit.**

### Considerations

While there are benefits to including renewal options as part of the original RLP, Leasing Specialists and LCOs should also take into consideration other factors, including the following:

- Market responses – How will the market react to an RLP requirement for fixed priced renewal options? Will this result in higher rent or reduced competition, due to market's uncertainty in setting a renewal price now?
- Scoring – Will inclusion of option(s) result in a capital lease determination?
- Technical obsolescence – Will exercising an option (or successive options) result in a lease that is too outdated with respect to technical requirements (e.g., seismic, fire protection and life safety, accessibility) or other lease provisions?
- Total Contract Value – Will adding options result in the need for additional procurement steps or approvals associated with higher total contract value thresholds (e.g., legal reviews, EEO clearance)?

These, and other considerations, will assist project teams in determining whether to include renewal options as part of their lease term strategy.

### Prospectus

For lease acquisitions subject to an approved prospectus, project teams may include additional options that exceed the term length authorized under the prospectus resolutions, as it is presumed that such options will require additional congressional authority before these options may be exercised by the Government (see paragraph 2.a above). Also note that prospectus level options are not included as part of the scoring evaluation because of the need for prospectus approval to exercise them. (See paragraph 5.f for additional information on scoring).

## 4. Lease File Checklists for Renewal Actions

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On October 23, 2019, the Office of Leasing issued Leasing Alert 19-11, Renewal Lease File Checklists. These checklists provided a reference framework for all tasks/documentation required for renewal option categories that have seen been revised as a result of these chapter edits. As a result, the renewal checklists are being updated under a separate Leasing Alert to reflect the categories:

- Pre-Existing/Evaluated Prior to Lease Award
- Pre-Existing/Evaluated Prior to Exercising
- Added or Unpriced Evaluated Prior to Exercising

Leasing Specialists must document their renewal project file in accordance with the relevant checklist. Note that these checklists are subject to revision by the Office of Leasing; the most current versions can be found on either the Office of Leasing Google site or in G-REX.

### Determining the Applicable Renewal Option Checklist

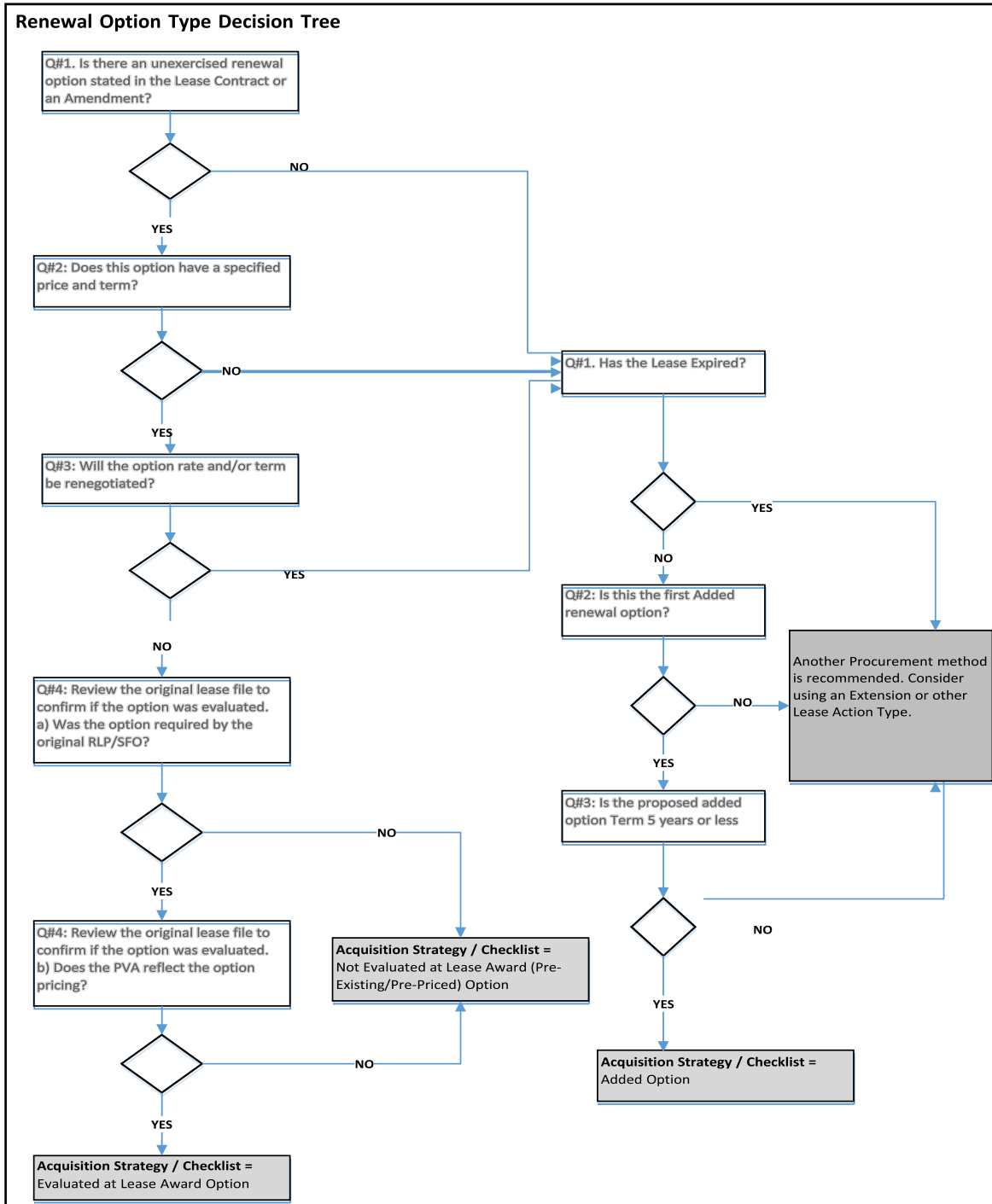
There are a number of factors to consider when determining the appropriate Renewal Option Checklist type to use. Use the decision matrix and flowchart on the following pages to guide your decision making:

Renewal Option Checklist Decision Matrix

Renewal Option Checklist Decision Matrix				
<b>Part 1</b>				
1	Is there an unexercised renewal option stated in the Lease Contract or an Amendment?	Yes/No	If "yes" - continue to next question.	If "no" - proceed to "Part 2" Questions below
2	Does this option have a specified price and term?	Yes/No	If "yes" - continue to next question.	If "no" - proceed to "Part 2" Questions below
3	Will the option rate and/or term be renegotiated?	Yes/No	If "yes" - proceed to "Part 2" Questions	If "no" - continue to next question.
4	Review the original lease file to confirm if the option was evaluated as part of the original lease award.			
	a) Was the option required by the original RLP/SFO?	Yes/No	If "yes" - continue to next question.	If "no" - Not Evaluated at Lease Award (Pre-Existing/Pre-Priced) Option Checklist is recommended.
	b) Does the PVA reflect the option pricing?	Yes/No	If "yes" - Evaluated at Lease Award Option Checklist is recommended.	If "no" - Not Evaluated at Lease Award (Pre-Existing/Pre-Priced) Option Checklist is recommended.
<b>Part 2</b>				
1	Has the lease expired?	Yes/No	If "yes" - stop. Another procurement method is recommended (ex. Extension, Succeeding).	If "no" - continue to next question.
2	Is this the first added renewal option?	Yes/No	If "yes" - continue to next question.	If "no" - stop. Another procurement method is recommended (ex. Extension, Succeeding).
3	Is the proposed added option Term 5 years or less	Yes/No	If "yes" - Added Option Checklist is recommended.*	If "no" - stop. Another procurement method is recommended (ex. Extension, Succeeding).
*Only if the decision is to continue pursuing an option. Other procurement methods may be preferable (extension, succeeding lease, competitive new/replacing lease, etc.)				



Renewal Option Checklist Decision Flowchart



## 5. Steps for Exercising an Option

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**IMPORTANT:** The Leasing Specialist or LCO must be aware of the required notification period to exercise the option as established under the lease and allow sufficient time to complete the following steps before providing the required notice to the lessor. This is especially crucial if prospectus approval is required to exercise the option.

### a. Confirm Continuing Need

The Leasing Specialist must confirm the client agency's continuing need for space and whether any additional improvements, alterations, or upgrades are needed. The Leasing Specialist must also confirm whether cyclical paint and carpet replacement are due under the lease. If agency space changes (such as a reduction in space), or improvements are needed beyond those required under the lease, the Leasing Specialist must reach a bilateral agreement with the lessor and obtain a Reimbursable Work Authorization (RWA) from the client agency to cover those costs.

#### Renewal Alterations

Follow the processes outlined under LDG Chapter 8 for alterations requested by the agency. Be sure to exclude any work (e.g., cyclical paint and carpet refresh) that is already mandated under the existing lease.

### b. Confirm Prior Evaluation

To confirm whether the option was evaluated as part of the original lease award, the Leasing Specialist must review the original lease file to determine whether offerors were required to submit a renewal option and, for competitive actions, whether the option was included under the original present value analysis of offers. The advertisement, solicitation and PNM (or Lease Action Summary for actions at or below SLAT) are good places to confirm information. If these documents are silent on this, or if there are no PVA spreadsheets in the file indicating the renewal rate, the Leasing Specialist should presume that the option was not evaluated at the time of original lease award and follow the steps as outlined below prior to exercising the option.

### c. Consider Lessor's Past Performance and Adequacy of Current Lease Language

#### Past Performance

The Leasing Specialist must confirm that the lessor has performed acceptably during the initial lease term and that there are no outstanding lease administration issues. The Lease Administration Manager (LAM) inspection reports and tenant satisfaction surveys are good resources for this verification. Also, the Leasing Specialist must check with their regional Fire Protection and Life Safety contacts to confirm via the Inventory Reporting Information System (IRIS) database that there are no outstanding fire safety deficiencies in the current space. Consider using the "Other Considerations" tab of the Succeeding Lease Analysis Tool to document due diligence information.

#### Current Lease Language

Similar to examining the lessor's past performance, the Leasing Specialist and the LCO should consider whether the current lease language, including technical specifications, services and

maintenance requirements, still provides adequate protection of the Government's occupancy. Under such circumstances, it may not be in the Government's best interest to exercise the renewal option, even if the rate is below market.

## **d. Document National Environmental Policy Act (NEPA) Compliance and Floodplain Check**

### **Automatic Categorical Exclusion**

The PBS NEPA Desk Guide provides that the National Environmental Policy Act (NEPA) compliance for the exercise of renewal options is to be accomplished by an automatic Categorical Exclusion (CATEX). Document NEPA compliance through either a memorandum to the file or through completion of the Auto-CATEX GSA Form 4002, available on GSA Forms Library.

### **Floodplain Check**

Before exercising the option, the Leasing Specialist must perform a floodplain check similar to that described in the Leasing Desk Guide Chapter 2, part 2, paragraph 11, Historic Preservation, Floodplains, Wetlands and Environmental Compliance Checks. If the current location is within the 100-year floodplain (or 500-year floodplain for a critical action), then the option must not be exercised unless it is determined that there is no practicable alternative and that the 4-step decision-making process outlined in the PBS Desk Guide for Floodplain Management has been followed.

## **e. Prepare Acquisition Plan**

Leasing Specialists must prepare and process an acquisition plan before exercising a renewal option.

## **f. Determine Scoring Classification**

If a lease agreement contains an evaluated option to renew that can be exercised without further congressional action (prospectus), it is presumed that the option will be exercised. All options that are included in the lease agreement for leases below the statutory prospectus level that do not require prospectus approval to exercise must be included in the lease term for the 90-percent scoring calculation. The option should have been included in the original scoring analysis for the lease. The Leasing Specialist must check the lease file to determine if the option was scored.

If such options are not factored into the base lease's original 90-percent scoring calculation, the scoring requirements as defined in Leasing Desk Guide Appendix F must be applied before an option can be exercised.

For renewal options priced at or above the statutory prospectus level, the requirement to include the option in the 90% scoring calculation depends upon whether further congressional action is required to exercise the option.

For example, if a lease has an approved prospectus for a term of 10 years, but the lessor offers a 10-year firm lease with two 5-year options, the 90-percent scoring calculation needs to reflect only a 10-year lease term. The two 5-year options cannot be exercised without a new prospectus, assuming that they are above the prospectus threshold, and therefore the options do not need to be included in the calculation at the time of the analysis.

Conversely, if an approved prospectus stipulates a term of 20 years and the proposed lease deal is structured as 10 years firm with two 5-year options, the 90-percent scoring calculation must reflect a 20-year lease term.

### **g. SAM.gov Advertisement/Posting**

Per GSAM 517.207, if the renewal option was evaluated as part of the original lease award, there is no requirement to advertise the option before exercising it, regardless of square footage involved. If the option was not evaluated as part of the original lease award, the LCO or his/her designee must publicize a notice in the Contract Opportunities module of SAM.gov before exercising the option. Unless the Government is considering a procurement alternative to exercising the option and is therefore seeking potential sources from the market, such advertisements should be written as a notice of intent to provide adequate transparency to the market.

### **h. Perform Market Analysis**

Prior to exercising the renewal option, the LCO must review and document current market information to determine whether the rent rate is fair and reasonable. The option rate must be compared with prevailing rent rates, (as adjusted for older base year/amounts for real estate tax and operating expense escalations if applicable in the renewal options) for comparable space in the same market. The standard full market survey process involving touring all available properties, filling out market survey forms, and preparing the market survey report is not required to exercise a renewal option.

If the rates are determined to be above-market based on the market analysis, then the option must not be exercised unless the LCO can determine the price to be fair and reasonable through some other means such as use of the Succeeding/Superseding Analysis Tool (e.g., exercising the option is preferable when other factors are considered such as moving and replication costs). If the option is not exercised, the LCO may either compete the requirement or seek a succeeding lease. Not exercising the renewal option can be a very powerful negotiating tool should a succeeding lease be sought.

### **Re-establishing the Real Estate Tax Base**

While there may be advantages to re-establishing the Real Estate Tax base for a renewal option that was not evaluated at the time of the original lease award (see Paragraph 6.b of this chapter), doing so will further complicate negotiations with the lessor on an unevaluated option. The LCO must decide if this is in the Government's best interest. Note that for an evaluated option, any such agreement to re-establish the Real Estate Tax base would require the lessor's approval and thus would change the nature of the renewal option from a unilateral to a bilateral agreement. Therefore, LCOs seeking to reset the tax base should proceed with caution to ensure that they do not mistakenly create a scenario where they cannot exercise an otherwise desirable unilateral renewal option.

### **i. Make Fair and Reasonable Price Determination**

The LCO must establish that:

- Fulfilling the Government's requirement, through exercise of the option, presents the best value considering price and other factors.

- The renewal price is competitive with market rates based on a market analysis and other applicable considerations indicating that the renewal price is fair and reasonable with prevailing rent rates for comparable space.
- Funds are available.
- The requirement covered by the option fulfills an existing Government need.

Note: If the LCO determines that the renewal rate for an option is not fair and reasonable and should be renegotiated for a better rate, the option is subject to the additional steps under Part 6 below.

## j. System for Award Management (SAM)

The Leasing Specialist must check System for Award Management (SAM) to confirm that the lessor's registration is active and that they are not excluded from federal contracts. In addition, the Leasing Specialist should review the lessor's SAM online representations and certifications with respect to the lessor's small business size re-representation, as required by FAR 52.219-28, Post Award Small Business Program Re-representation. In instances where the lessor's size status changes from small to other than small as a result of this re-representation, the LCO *may* require a small business subcontracting plan, as outlined under FAR 19.301-2(e). This will foster opportunities for small businesses during the remainder of the lease term and ensure that GSA meets agency-wide goals for small business participation in Government contracting actions.

## k. Prepare Occupancy Agreement

GSA must prepare and transmit a new version of the existing Occupancy Agreement (OA) to the agency reflecting the rates for the option period. A signed OA is required before exercising the option. However, as outlined under LDG Chapter 5, Succeeding Lease, Superseding Lease, there may be circumstances where the agency is already occupying the space but has not provided its requirements or is unwilling to sign an OA and the LCO may have to protect the government's financial interests without the benefit of an executed OA, to avert a holdover tenancy. In such a situation, LCOs should weigh the risks and follow the same steps as outlined under Part 7 of LDG Chapter 5 prior to making a decision to exercise the renewal option. This includes obtaining written concurrence from the Regional Portfolio Director.

## l. Other than Full and Open Competition

If the renewal option was evaluated as part of the initial procurement, a Justification for Other than Full and Open Competition (Justification) is not required prior to exercising the option. Note, however, that if the LCO is intending to include and evaluate a renewal option as part of a sole source succeeding lease, then the succeeding lease Justification, which must be approved prior to negotiating the succeeding lease, must include the option as part of any cost benefit analysis performed.

If the option was not evaluated as part of the original lease award, a Justification is required before exercising the option for actions over the Simplified Lease Acquisition Threshold (SLAT). (See GSAM 570.402 and the Leasing Desk Guide Chapter 5 for further guidance regarding Justifications). The Justification must follow the criteria used to justify a sole source succeeding lease, including, if alternative locations are identified, the costs and benefits of remaining at the current location compared to pursuing a competitive procurement. For options at or below SLAT that were not evaluated as part of the original lease, a formal Justification is not required; documentation to explain the lack of competition is sufficient. Note that, since our GSAR definition

of SLAT, as outlined under 570.102, is on an annual basis, approval of the memorandum above the LCO is not required, regardless of the aggregate value of the renewal. Once the option has been exercised, the Leasing Specialist must post a redacted version of Justification on SAM.gov within 14 days (note that this does not apply to file memorandums for SLAT actions). See Leasing Desk Guide Chapter 5, Succeeding Lease, Superseding Lease, for a redaction sample.

### m. Confirm Funds Availability

Prior to giving notice for exercising an option, the LCO must confirm that Budget Activity 53 leasing funds are available by obtaining a final certification of funds from the budget office.

### n. Preparing an Administrative Lease Amendment

Generally, a renewal option provided in a lease contract represents a unilateral right of the Government, meaning that the lessor's agreement or signature is not necessary to execute and effect the option, so long as the Government accept the original terms of the renewal option. However, the notice exercising the option should also include an administrative Lease Amendment to serve as an administrative record of the contract action for Rent Bill Management (RBM) and payment processes. An administrative Lease Amendment is a unilateral Lease Amendment that documents the results from/effect of an action taken by the government following a process or right that already exists in the contract and therefore does not require the lessor's signature in order to be valid. See Paragraph o below for additional guidance regarding the use of an administrative Lease Amendment as part of the Notice process.

### o. Provide Notice to Lessor

As stated above, generally, a renewal option provided for in a lease contract represents a unilateral right of the Government, meaning that the lessor's agreement or signature is not necessary to exercise and effect the option. However, it is critical that the LCO provide timely written notice to the lessor exercising the option. This written notice must be issued by the LCO and not a Leasing Specialist and must be timely according to the terms of the lease for the option terms to be enforceable. Unless using email, it is good practice to send renewal notices via certified mail, return receipt requested, or through an overnight delivery service with a receipt of delivery. For notices transmitted via email, request a read receipt and upload the sent email in GREX.

#### Who May Issue Notice?

While a Leasing Specialist may send the administrative Lease Amendment out to the lessor for signature, only the LCO is authorized to issue the notice that exercises the option and only the LCO may sign the administrative Lease Amendment.

The LCO issues this notice by sending to the Lessor the unilateral administrative Lease Amendment as described under Paragraph n above. This unilateral Lease Amendment, which should be signed by the LCO prior to issuance, documents the Government's decision to exercise the option, along with the extended lease term and new annual rent and also serves as an administrative record of the contract action for Rent Bill Management (RBM) and payment processes. Unless the Lease Amendment reflects a negotiated change to the terms and conditions of the option, the Lease Amendment is both unilateral and administrative in nature. As such, the lessor's signature on the Lease Amendment is not required in order for the renewal to take effect. Timely written notification through issuance of the unilateral Administrative Lease Amendment by the LCO is sufficient to exercise an option. However, a Lease Amendment that reflects changes or adds conditions to the exercise of the option will no longer be purely

administrative and will require mutual agreement and a bi-lateral lease amendment in order to be enforceable.

### **Section 889 Compliance (Ban on Certain Foreign Components in the Supply Chain)**

Leasing Alert LA-20-11 outlines the prohibitions under Sections 889(a)(1)(A) and (a)(1)(B) of the John S. McCain National Defense Authorization Act for Fiscal Year 2019 (NDAA). Section 889(a)(1)(A) of the NDAA (“Part A”) prohibits the Federal Government from procuring or obtaining, or extending or renewing a contract to procure or obtain any equipment, system, or service that uses covered telecommunications equipment or services as a substantial or essential component of any system, or as critical technology as part of any system, covered telecommunications equipment or services. Section 889(a)(1)(B) (“Part B”) of the NDAA for FY2019 prohibits the Federal Government from entering into a contract (or extending or renewing a contract) with an entity that uses any equipment, system, or service that uses covered telecommunications equipment or services as a substantial or essential component of any system, or as critical technology as part of any system.

Lease contracts do not need to be modified to include these requirements, unless the modification is for an extension of term (e.g., extension or renewal). Therefore, for renewal actions, the lease must be modified to include FAR clause 52.204-25 (AUG 2020), either added separately (Attachment 2 of Leasing Alert LA-20-11) or by adding the updated General Clauses (Attachments 3 or 4 of LA-20-11). It is very important to provide a sufficient amount of time to both provide notice for exercising a renewal option and to provide lessors with adequate time to comply with the clause. At least one year prior to the renewal notification date is recommended.

See Leasing Alert LA-20-11 for additional information and templates.

### **p. Process the Action**

Process the lease payment and client billing as outlined in the Leasing Desk Guide Chapter 2, part 8, paragraph 3.

### **q. Distribute Lease Amendment**

The Leasing Specialist must upload the renewal notice and executed Lease Amendment into G-REX and provide copies of the Lease Amendment to local and headquarters representatives of the client agency, the GSA PBS field office, Federal Protective Service (FPS), and other team members so that they can provide any new alterations and continue providing security, supporting services, and utility contracts.

### **r. Post Redacted Justification**

As mentioned under Part I above, if an option was not evaluated as part of the original lease award, the Leasing Specialist must post a redacted version of Justification on SAM.gov within 14 days (note that this does not apply to file memorandums for SLAT actions). See Leasing Desk Guide Chapter 5, Succeeding Lease, Superseding Lease, for a redaction sample.

## 6. Steps for Adding an Option Post-Award or Negotiating a Pre-Existing/Unpriced Option

As outlined under the Leasing Alert entitled “Adding Renewal Options Following Lease Award,” issued May 20, 2014, LCOs may re-negotiate the lease to add one single renewal option, provided the option does not exceed five (5) years. GSA LCOs may not add renewal options to leases that have expired although they are allowed to add a renewal option during a lease extension period. LCOs should not add renewal options to leases that have existing fire and life safety deficiencies, unless the lessor agrees to correct the deficiencies as part of the renewal process. Finally, note that there can be no increase in square footage when exercising an added renewal option although reductions are acceptable when no alterations are required.

### Added Option Terms

Unless prior written approval has been provided from the Assistant Commissioner for the Office of Leasing, regions are restricted to adding no more than one (1) renewal option, with a term of five (5) years or less.

Also, avoid adding a short term option (2 years or less), as this requires more steps and resources than negotiating a lease extension.

*The process for **adding** a renewal option (or negotiating an unpriced option) follows the same steps for exercising a pre-existing option, as outlined under Part 5 above, except as follows:*

### Important

Unless explicitly noted below, also follow *all* of the steps outlined under Part 5.

### a. Acquisition Planning

Leasing Specialists and LCOs must complete an approved acquisition plan prior to initiating any action to add a renewal option; the acquisition plan must clearly convey that the procurement reflects an added or re-negotiated renewal option.

### b. Advertisement (Contract Opportunities)

For added renewals, the Leasing Specialist must post the advertisement prior to commencing negotiations with the lessor.

### c. Other than Full and Open Competition

An approved Justification is required *prior* to entering into negotiations to add the option. Further, the Justification must clearly convey that the option is being added post-award (or, for un-priced pre-existing options, that the rate is being negotiated/established).

### d. Negotiations

Prior to entering into negotiations with the lessor to add the option, Leasing Specialists must engage in market research in order to establish negotiation objectives for fair and reasonable pricing. Once the negotiation objectives are established and documented in the file, the Leasing Specialist may commence negotiations with the lessor to reach an agreement as to the terms of the added option. Be sure to consider the existing termination rights in the original lease and how that may affect the renewal. The negotiations must be documented in a price negotiation



memorandum (PNM) or Lease Action Summary (for actions at or below SLAT), signed by the LCO.

### **Re-establishing the Real Estate Tax Base**

For unpriced or added options where the rate is established via negotiations, the LCO should consider the impact of an old tax base year or base amount on the future escalations. This is especially true for significantly older leases or for leases where the renewal option reflects a substantial rate increase. The LCO may want to consider approaching the lessor about re-establishing (increasing) the real estate tax base. For example, if no adjustment is made to the real estate tax base, the Government would continue to reimburse the lessor for annual tax adjustments over the original base, and these reimbursements may involve substantial payments. Prior to contacting the lessor, the LCO must perform careful and thorough research, including consultation with an Administrative LCO (ALCO) from the appropriate Lease Contract Administration (LCA) zone.

### **e. Lease Amendment Adding Option/Establishing Pricing**

Once negotiations are complete, the Leasing Specialist must prepare a Lease Amendment outlining the terms of the added/negotiated option (length, rate and the date by which it must be exercised by the Government) to be executed by the lessor and the LCO. Note that the purpose of this Lease Amendment is only to add the option, not to execute it. The exercise of the added option occurs under a separate step.

### **f. Scoring**

Since the added/negotiated option was not factored into the base lease's original 90-percent scoring calculation, the scoring requirements as defined in Leasing Desk Guide Appendix F must be applied before an option can be exercised.

### **g. Provide Notice to the Lessor**

Once the option has been added and all of the other pre-award steps outlined under Part 5 above have been completed, the LCO must provide timely written notice to the lessor exercising the negotiated option. This includes the transmittal of a second Lease Amendment to administratively reflect the exercising of the option.

### **h. Post Redacted Justification**

The Leasing Specialist must post a redacted version of Justification on SAM.gov within 14 days (note that this does not apply to file memorandums for SLAT actions). See Leasing Desk Guide Chapter 5, Succeeding Lease, Superseding Lease, for a redaction sample.

### **i. Additional Steps**

All of the other steps for exercising a renewal option, as outlined under Part 5 above, also apply.