

B. Tenant Improvement Allowance (TIA)

1. When commercial leases are negotiated, it is customary for the landlord (or “lessor”) to provide the future occupant (or “tenant”) a monetary credit toward the cost of building out the space according to the tenant’s requirements in terms of partitions, carpet, electrical circuiting, etc. Many, but not all, of the NIH leases include these TIA loans. The lessor recovers the costs of the TIA loan by rolling it into the monthly rent bill in an amortized fashion across the life of the loan. In order to more equitably assign the cost of TIA to those ICs which benefit from the built-out space, ORS decided to separate TIA from Base Rent beginning in FY2002. The process begins with a lease and:

- • A location
- • A given number of square feet
- • For a certain period of time
- • An improvement allowance to fix up the place

2. The NIH obligation:

A stream of rent payments, including tenant allowance, over the term of the lease, let’s say 15 years -

Year 1 - \$100,000
Year 2 - \$100,000
Year 3 - \$100,000
And so on...
Year 15 - \$100,000

Or, it could be considered two streams of payments -

One for the space out loan	One for the build-
Year 1 - \$90,000	Year 1 - \$10,000
Year 2 - \$90,000	Year 2 - \$10,000
Year 3 - \$90,000	Year 3 - \$10,000
And so on...	And so on...
Year 15 - \$90,000	Year 15 - \$10,000

3. ORS is modeling NIH leases as two cash flows – one for the space and one for the TIA (if it exists). The TIA loan is modeled as a simple amortized loan, at a 9% to 12% annual interest rate (depending on the lease terms), with monthly payments. The charge to the IC is the sum of the twelve monthly payments apportioned among the ICs in the leased space, based on the rentable square feet occupied.

4. Each lease comes with a different amount of TIA depending on the lease, the lessor and the NIH's goals. Generally, when the NIH agrees to TIA, it varies from \$10 to \$30 a square foot. Therefore the TIA charge back rate for any given lease will differ depending on how much was loaned, the length of the lease and the interest rate charged by the landlord. In order to simplify the TIA rate structure, all the TIA from leases at a given address are averaged into one building rate. The TIA is charged back to the ICs only for as long as they occupy the space of a lease that came with TIA.

5. In future years, ORS hopes to accelerate the collection from the ICs of the TIA money and use the accelerated recovery to fund a tenant work bank. In essence, the NIH would be leveraging the TIA loans using a fractional reserve-banking model to multiply the money. Fractional reserve banking is a macro economic model that achieves the "multiplier effect" through the magic of circulation. A bank like this could greatly enhance the financial resources available to the NIH to build out and renovate space, on or off campus