

### **CHAPTER 10:**

# Lease Holdovers, Standstill **Agreements, and Condemnations**

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1. Understanding Holdovers, Standstill Agreements, and Condemnation &

# 1. Understanding Holdovers, Standstill Agreements, and Condemnation

#### a. Holdover Definition

A holdover is a tenancy that is created when the tenant continues to occupy the premises beyond the expiration date of the lease term. Holdover tenancies often lead to friction between the landlord and the Government. The Government has no contractual right to occupy the premises. The Government seeks continued occupancy while the tenant agency is completing its long term requirements or seeking time to move in an orderly fashion to another location. The landlord views the holdover tenancy as a financial loss, with the landlord believing it is entitled to a substantial rent increase during the holdover plus consequential damages. The landlord will believe a rent increase is justified because:

- Shorter tenancies create economic uncertainty when compared to a long term lease.
- Identifying suitable new tenants can be problematic if the landlord cannot determine when the premises will be available for occupancy.
- The landlord may already have another tenant ready to take the space.
- The holdover may reduce the marketability of the property to prospective buyers or prevent the owner from selling quickly.
- The holdover causes problems for the landlord with regard to refinancing.

Therefore, holdovers should be avoided.

### b. Avoiding Holdovers

Lease Contracting Officers should be able to avoid holdovers by:

- Submitting requirements request letters to client agencies 18 months to 3 years before lease expiration (time depending upon size of lease and whether a prospectus approval is required).
- Negotiating timely extensions to existing leases.
- Timely awarding and diligently managing follow-on leases.

If a holdover is not avoided, signing interim standstill agreements may mitigate the impacts.

#### c. If the Landlord Will Not Extend the Term of the Existing Lease

When a new lease or extension agreement has not been reached and the existing contract is within 120 days of expiration, Lease Contracting Officers –



🔖 1. Understanding Holdovers, Standstill Agreements, and Condemnation

- Should inform senior regional leadership who may offer guidance to assist in reaching an agreement, thus avoiding a potential holdover or condemnation.
- Must contact the Office of Regional Counsel to review available options, including entering into a standstill agreement with the lessor or condemning the leasehold interest.

#### d. Standstill Agreement Definition

A standstill agreement (see Attachment 1) is an agreement that preserves the *status quo* between the lessor and the Government. When the procurement for an expiring lease cannot be completed before the end of its term and a holdover is imminent, a standstill agreement should be considered with the lessor to maintain the Government tenancy and rent payments until a new or succeeding lease can be executed. The standstill agreement is a temporary measure entered into instead of a holdover or condemnation and is intended to buy time for the lease acquisition process to run its course. The agreement is not intended to imply that the incumbent will be the successful offeror for a new lease or that the parties will necessarily execute an extension or succeeding lease.

#### Under a standstill agreement:

- The terms and conditions of the expiring lease remain in full force and effect, except as otherwise amended by the standstill agreement.
- The parties agree to negotiate, actively and in good faith, an extension or succeeding lease, as appropriate, for the premises.
- The Government agrees not to condemn the premises by the power of eminent domain and will not file a Declaration of Taking during the term of the standstill agreement.
- The lessor agrees not to file an inverse condemnation or breach of lease action during the term of the standstill agreement.
- The Government agrees to continue to pay rent at the then-current rental rate stated in the lease and to comply with all other terms and conditions of the lease, except as otherwise amended by the standstill agreement.
- · The lessor agrees not to do the following:
  - Undertake to evict the Government from the premises;
  - Interfere with the use or occupancy of the premises by the Government;
  - Interrupt the building operations, services, and utilities as provided under the expiring lease;
  - Market the space to potential tenants if the Government is planning to remain in the premises; and
  - Threaten to do any of the acts described above.

The parties enter into the standstill agreement for the following reasons:



2. Rental Payments During Holdovers

- They wish to avoid a holdover.
- They wish to avoid a condemnation or inverse-taking lawsuit.
- The Government does not want its operations, services, or tenancy interrupted or disturbed.
- They believe it will facilitate negotiations.
- They wish to preserve the *status quo* pending the completion of a lease acquisition procedure that could result in a mutually acceptable long-term lease or extension.

#### e. Condemnation Definition

Condemnation is the sovereign power of the Federal Government, authorized by the Fifth Amendment to the U.S. Constitution, to take private property, such as leasehold estates, for public purposes upon the payment of "just compensation."

#### f. Information Needed To Support Request for Condemnation

The U.S. Department of Justice in Washington, DC, makes the final decision on whether to file a condemnation action. Before that decision is made, GSA submits various documents in support of its request. See Attachment 2, Checklist for Leasehold Condemnation, for a detailed description of the documents and other supporting information that may be required.

### 2. Rental Payments During Holdovers

### a. Rental Payment Policy

It is GSA policy, where the Federal Government occupies space after expiration of a lease and before execution of a succeeding lease or new lease, to continue to make monthly rental payments at the then-current rental rate stated in the expired lease.

#### b. Prospectus-Level Holdovers

The lease contract for all prospectus-level holdovers resulting from delays in congressional approval will continue at the rental rate stated in the expired lease, subject to the approval of the regional Office of Portfolio Management and the Office of Regional Counsel.

When lease expiration will occur within 6 to 12 months and Lease Contracting Officers and regional managers anticipate a holdover lease pending prospectus approval, the Leasing Specialist and Lease Contracting Officer must initiate discussions with the Office of Regional Counsel and the regional Office of Portfolio Management to assess available options to avert the holdover and, concurrently, notify the national Office of Portfolio Management.



🔖 2. Rental Payments During Holdovers

### c. Execution of a Succeeding Lease or an Extension Is Required

For all holdover leases, rental payments will be adjusted to the new negotiated amount retroactive to the agreed-upon effective date of the succeeding lease or extension only after execution by the Government of a succeeding lease or an extension.



Attachment 1: Sample Standstill Agreement &

### **Attachment 1: Sample Standstill Agreement**

#### STANDSTILL AGREEMENT

ha	THIS STANDSTILL AGREEMENT (hereinafter "Agreement") is made by and tween  Limited Partnership (hereinafter
"L Sta	Limited Partnership (hereinafter, whose address is
	RECITALS
1.	The Lessor owns certain improved real property located at
2.	The Parties do not want an unnecessary condemnation lawsuit and the Government does not want its operations, services, or tenancy interrupted or disturbed. Neither Party wants a lease holdover and the Parties prefer their negotiations to end with a lease extension at a monthly rental rate to be retroactively effective from
3.	By this Agreement the Parties seek to preserve the <i>status quo</i> pending the completion of a leasehold acquisition procedure that could result in a mutually acceptable lease extension, and by the terms of which the Government could continue to lease the Premises from the Lessor.
4.	The Parties believe this Agreement will facilitate settlement negotiations. As evidenced by their signatures to this Agreement, the Parties agree that no right, action, or claim either Party may otherwise have against the other Party will be prejudiced or waived by this Agreement.
	NOW THEREFORE, in consideration of the foregoing recitals and the mutual venants set forth herein, the adequacy of which is hereby acknowledged by the dersigned, the Parties agree as follows:



Standstill Agreement 1: Sample Standstill Agreement

#### During the term of this Agreement:

- 1. The Parties agree to negotiate, actively and in good faith, a lease extension for the Premises.
- 2. The Government will not condemn the Premises by the power of eminent domain, and will not file a Declaration of Taking with respect to the Premises.
- 3. The Lessor will not initiate an "inverse condemnation" or breach of lease action in any United States Court or tribunal with respect to the Premises.
- 4. The Lessor will not:
  - A. Undertake to evict the Government from the Premises;
  - B. Interfere with the use or occupancy of the Premises by the Government;
  - C. Interrupt the operations, building services, or utilities of the Government from what they were while the lease was in effect;
  - D. Market the space to potential tenants if the Government is planning to remain in the premises; or
  - E. Threaten to do any of the acts referenced in A, B, C, or D above.
- 5. Each Party agrees not to take any action to alter its position to the detriment of the other Party in any condemnation type action arising out of these facts.

#### At all times after this Agreement becomes effective:

- 6. The Government will receive full credit for money paid to Lessor during the term of this Agreement in accordance with Lease No. \_\_\_\_\_\_ whether there is a lease extension, other legal action, or settlement.
- 7. Neither Party will seek or accept severance damages or attorney's fees from the other Party for the period this Agreement is in effect.
- 8. In the event that a lease extension, with respect to the Premises, is not executed by the Parties during the course of this Agreement, or that this Agreement is otherwise terminated, then any legal proceeding arising therefrom is stipulated by the Parties to be deemed to have commenced on .



Attachment 1: Sample Standstill Agreement

- 9. <u>Termination of Agreement</u>: The Parties agree that all terms and conditions of the Lease will remain in full force and effect during the term of this Agreement. This Agreement will terminate on the earlier of \_\_\_\_\_\_\_, or on the date a lease extension agreement is signed by the Parties. This termination provision may be amended to extend the termination date of this Agreement by the mutual written consent of the Parties.
- 10. <u>Successors in Interest</u>: All of the terms, covenants, and provisions herein contained will bind and inure to the benefit of the Parties, their heirs, executors, administrators, personal representatives, successors, trustees, receivers, and assigns as applicable, except as otherwise provided herein.
- 11. Merger Clause: All prior understandings and agreements with respect to the subject matter of this Agreement, written or oral, are merged into this Agreement. This Agreement represents the final agreement between the Parties with respect to such subject matter, and may not be superseded, except by a separate written agreement signed and agreed to by the Parties.
- 12. <u>Amendments</u>: Neither this Agreement, nor any terms hereof, may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the Party against whom the enforcement of a change, waiver, discharge, or termination is sought.
- 13. <u>Construction</u>: Any provision contained in this Agreement that is prohibited or unenforceable will be ineffective to the extent of such prohibition or enforceability without invalidating the remaining provisions hereof. A waiver by a Party of any right, covenant, condition, or remedy in any instance hereunder will not operate as a waiver of such right, covenant, condition, or remedy in any other instance, and waiver by a Party of any breach of the terms hereof will not be a waiver of any additional or subsequent breach. This Agreement will be governed by, and construed in accordance with, the laws of the United States of America.
- 14. <u>Counterparts</u>: This Agreement may be executed in photocopied counterparts that, when taken together, will constitute a single agreement.
- 15. <u>Effective Date</u>: This Agreement is effective and enforceable only after having been first signed by the Lessor, and second, accepted and signed by the Government.



🦠 Attachment 1: Sample Standstill Agreement

S Attachment 1: Sample Standstill Agreement
IN WITNESS WHEREOF, the Parties have executed this Agreement as of
LESSOR
Limited Partnership
Signature: Printed Name: Title: Date:
UNITED STATES OF AMERICA, acting by and through the Administrator of General Services and authorized representatives
Signature:

Printed Name:

Title:

Date:



Attachment 2: Checklist for Leasehold Condemnation 4

# Attachment 2: Checklist for Leasehold Condemnation

### 1. Lease Contracting Officer's Memorandum

- Explain the basic facts of the lease, such as the name of the lessor, name of the
  customer agency, location of the space, use of the space (e.g., office, laboratory), the
  date of award, term of the lease, amount of square footage, amount of rent, purpose of
  the extension, and other pertinent facts, such as whether the lease is full service or triple
  net.
- Describe efforts to negotiate an extension of the expiring lease term. Please be as specific as possible.
- State the term of the leasehold condemnation extension needed. This is often difficult to project; however, the Lease Contracting Officer must use reasonable judgment in this area.

#### 2. Adequate Title Evidence

In the condemnation action, the Government is required to provide notice to all affected parties. One of the best ways to learn the names of the interested parties is to request a litigation guarantee from the title insurance company that only the identified parties have an interest in the property. If the space is not located in a jurisdiction where title insurance is commonly obtained, please work closely with the applicable GSA Office of Regional Counsel to develop an alternative.

The amount of the litigation guarantee must be the appraised fair market value leasehold rent for the term of the lease.

### 3. Appraisal Report

An appraisal report is required to determine the amount of "just compensation" required to support the filing of a condemnation action. The appraised rental rate may be higher or lower than the existing rental rate. Please note that this is a long lead item and typically takes a minimum of 60 days to complete. The appraisal report must be self-contained and comply with the *Uniform Standards of Professional Appraisal Practice* and the *Uniform Appraisal Standards for Federal Land Acquisition*, commonly referred to as the *Yellow Book*. The Lease Contracting Officer must work closely with the regional appraisers, the Office of Regional Counsel and the U.S. Department of Justice to formulate instructions for the appraisal.

#### 4. Rent for the Entire Term

Generally, a check in the amount of the net present value of the rent for the entire leasehold term to be condemned as of the date of the taking must be deposited with the United States District Court upon filing of a Declaration of Taking. However, in some cases it may be possible to pay monthly at a fixed rental rate. If that is the preference of either the Government or the lessor, consult with the Office of Regional Counsel. Often issues arise as to whether to include operating expenses and real estate taxes in the rent calculation that are fact-specific and require artful drafting of the estate in the Declaration of Taking. Consult with your Office of Regional Counsel



Attachment 2: Checklist for Leasehold Condemnation

on these issues. Advance arrangements must be made with the Office of Finance, which typically needs approximately 2 weeks to generate a check. Some time can be saved if the Court Clerk can accept wire transfers (not all do). See, Attachment 3, Condemnation Package (SF 1034) Sample and Greater Southwest Finance Center Guidelines for Submissions of Payment Package for Condemnation of Private Property or Leasehold Properties, for additional information.

The check must be made payable to the proper party as identified by the U.S. Department of Justice.

Upon filing a Declaration of Taking and depositing the just compensation with the Clerk of the appropriate U.S. District Court, title to the leasehold estate for the specified term vests in the United States. Please note, however, that an order for possession also is required from the Court when we are not already in the premises.

#### 5. National Environmental Policy Act

Lease extensions and succeeding leases are generally considered Automatic Categorical Exclusions. See NEPA Desk Guide, Chapter 5, Categorical Exclusions. In most instances, the Lease Contracting Officer will be able to prepare a memorandum determining that the condemnation of the existing leasehold qualifies for an Automatic Categorical Exclusion.

#### 6. National Historic Preservation Act

The Lease Contracting Officer must provide evidence of compliance with Section 106 of the National Historic Preservation Act, if applicable. The Lease Contracting Officer must consult with the Regional Historic Preservation Officer to determine whether further action is required.

#### 7. Appropriation Act Identification

Identify the appropriation act applying to the project and the acquisition, as well as the source of funds for the "just compensation." Depending on the amount of the total deposit (which can reach large sums very quickly), special funding arrangements may be necessary.

### 8. Detailed Description of the Leasehold Interest

GSA must carefully detail the interest that is being taken; this is particularly so when the Federal Government is not the sole tenant in the building. The description must include, if feasible, the following:

- Description of agency-occupied floors in the building, including square footage on each floor, and total square footage occupied.
- If the leased premises are located within a building that is part of a multi-building complex, then describe the location of the building in which the leased space is located within the overall office complex.
- Description of all the common areas within the building and the complex used by the agency, including the restrooms used by the agency (and their location within the building), any storage areas, parking facilities, loading docks, maintenance closets, rooftop space for satellite dishes, and any other common area facilities and their locations within the building. The description must cover all mechanical, operational,



Attachment 2: Checklist for Leasehold Condemnation &

security, and HVAC equipment, and everything else necessary for the Government's occupancy.

 Plans depicting the leased premises must be included that are sufficiently neat and legible to be attached to the pleadings.

#### 9. Continued Operations

Make arrangements with the lessor, if possible, for continued services (e.g., janitorial, utilities) in the leased premises commencing with the date of taking. In the event that the space is in a multitenant building and the utilities are not separately metered, then consult further with the GSA Office of Regional Counsel.

### 10. Keep Your Management in the Loop

Brief the Regional Commissioner of PBS and other senior management of PBS regarding the proposed condemnation. Keep them informed throughout the entire condemnation process.



♦ Attachment 3: Condemnation Payment Package (SF 1034) Sample and Guidelines

# Attachment 3: Condemnation Payment Package (SF 1034) Sample and Guidelines



Attachment 3: Condemnation Payment Package (SF 1034) Sample and Guidelines &

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🖔 Attachment 3: Condemnation Payment Package (SF 1034) Sample and Guidelines

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Attachment 3: Condemnation Payment Package (SF 1034) Sample and Guidelines

Greater Southwest Finance Center Guidelines for Submission of Payment Package for Condemnation of Private Property or Leasehold Properties

Condemnation is the exercise by the Government of its constitutional power to take private property for public purposes. Through condemnation of leasehold properties authorized by 40 U.S.C. 257, GSA acquires the right to use and occupy space in a building that the Government does not own or lease. The following are the Finance Guidelines for submitting a payment package for the payment of a condemnation.

 Standard Form (SF) 1034, Public Voucher for Purchases and Services Other than Personal.

The SF 1034 is the primary payment document which acts as an invoice. This form can be found in the Document Library, Standard and Optional Federal Forms accessed from the GSA Insite webpage at <a href="https://www.finance.gsa.gov">www.finance.gsa.gov</a> under the CFO tab.

#### Required fields:

- Payee name
- Payee Federal Taxpayer Identification Number
- Address

Note: if the check is to be express mailed to an address other than the payee, provide that information as a c/o address line

- A brief description of the purpose for the payment
- Dollar amount
- Accounting classification information for proper posting
- The signature, printed name and phone number of a warranted contracting officer
- 2. Supporting documentation which should accompany the SF1034:
  - A copy of the Declaration of Taking signed by the Regional Administrator
  - Banking information if a wire or EFT payment has been approved as method of payment.
  - Concurrence of the Regional Counsel for the Declaration of Taking (which could be a concurrence signature on the SF 1034)
- The completed package may be mailed or faxed to the PBS Direct Payments Group (7BCPD) at the Greater Southwest Finance Center. The express mail address is 819 Taylor Street, Room 5C08, Fort Worth, TX 76102. The fax number is 817-978-3931.

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Attachment 3: Condemnation Payment Package (SF 1034) Sample and Guidelines

- 4. Three to five business days must be allowed for the processing of the payment once the package has been received and reviewed for accuracy by the Finance Office. All processing dates are contingent upon the accuracy of the payment documents provided.
  - if there is not a current vendor in the vendor table, Finance will submit a request for a new vendor code. This can take 24-48 hours.

Once the vendor code is established, the following payment options are available:

- If no special handling is required and the payment can be processed as a regular EFT payment, the funds will be deposited within 2 business days after the Pegasys payment document is processed through the regular completed match process.
- If no special handling is required and the payment is to be processed by check and sent by regular mail, the Pegasys payment document is processed through the regular completed match process and mailed within 2 business days. Delivery time is contingent upon local postal service.
- If the payment is to be issued as a check and express mailed to the
  recipient, the payment must be processed into the system manually.
  Treasury will be notified that special handling of this check is required.
  The cut-off for Accounts Payable to process a manual check payment is
  11 a.m., CST. The check will be processed and express mailed by
  Treasury in 1-2 business days.
- If a wire transfer is requested, the payment must be processed into the system manually. In order for Treasury to process the wire on the same day of the requested pay date, the payment must be processed into Pegasys by 11 a.m. CST. The name of the bank, the ABA routing number for wire transfers, the recipient's bank account number, and a valid phone number for the bank must be provided for wire transfer requests.

For additional information regarding Condemnations, refer to:

- PBS Financial Management Handbook; PBS Accounting Procedures Chapter 8, Budget Activity 53 – Rental of Space, Part 5, Item 15(c), 3a, b http://insite.pbs.gsa.gov/pf/ba\_53.asp#14
- General Services Administration Guidebook I, Acquisition of Real Property, Chapters 3 and 5.

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