

Work Letters

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Delineating Responsibilities

- Scenario 1: Landlord Completing the Work: Landlord has oversight and control over timeline, budget, and building standards.
- Scenario 2: Tenant Completing the Work: Landlord will want to have controls over Tenant's activities.
- Scenario 3: Landlord and Tenant each completing a portion of the Work: Need to be specific in addressing each party's responsibility to avoid confusion.

Approvals and Inspections

- Pre-Construction Approvals
 - Architect
 - Contractor
 - Plans and Specifications
 - UT campus-specific departments and offices
- Inspection and Post-Construction
 - On-going inspection rights
 - Substantial Completion
 - UT campus-specific departments and offices
 - Punch List

FASB Rule

- ASC Topic 840-40-55-15(b)
- If Tenant completing improvements beyond “normal tenant improvements”, Tenant required to treat entire project as if it were an asset in its books during the construction period.
- Tenant Improvements that are not “normal”: structural elements of project, equipment that would be necessary for any tenant (elevators, HVAC, or electrical wiring), costs in the original project budget that the landlord agreed to pay.
- Likely to see on larger leases, probably not smaller ones.
- Solutions: (i) Landlord pays upfront costs, or (ii) identify the elements of tenant improvements for which Tenant is responsible (normal tenant improvements) and those for which Landlord handles (the rest).

If you can't figure it out, call Ed Walts.

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