Leasehold Improvements, Decommissioning Expenses and Similar Costs

Description

1. For UNDP purposes, Leasehold Improvements (LHI) are improvements made to commercially leased premises where the lease agreement was signed by UNDP, donated right to use premises occupied by UNDP or any premise that is not OWNED by UNDP. Such improvements will only be capitalized if the total cost of improvement exceeds US$50,000. Each improvement will be based on an identifiable improvement to the building.

2. There are many types of Leasehold Improvements. These include fixed lighting fixtures, heating and other infrastructure enhancements. Improvements can also include new construction such as rooms, additions, immovable partitions, entrances, security infrastructure or permanent enhancements to the outside appearance of a structure. Landscaping may also be classified as Leasehold Improvement. Note that LHI excludes regular maintenance tasks.

3. Leasehold Improvements are capitalized if the service potential of the tangible capital asset is enhanced. For UNDP purposes, a Leasehold Improvement will be capitalized (i.e. the total cost of the asset is expensed over several accounting periods instead of expensed upon purchase) if it meets the following criteria:

   a) Provides future economic or service benefits to UNDP;
   b) Is expected to be used during more than one reporting period (which in UNDP is 12 months);
   c) Has a value of USD 50,000 or more;
   d) Is used and controlled by UNDP;
   e) Has a cost that can be reliably determined.

4. In addition to these criteria, for an expense to be treated as a Leasehold Improvement, UNDP must have the right to use and the responsibility to maintain that improvement.

5. Lease Hold Improvement such as renovation will not be disposed or written off as they are attached to the building. UNDP’s standard lease agreement contains the following Article.

6. “Where, with the prior written consent of the Lessor, major alterations, renovations or additions are made on the demised Premises, the UNDP shall not be under any obligation to restore the demised Premises to the state and conditions existing prior to entering upon the same under this Lease Agreement. Such consent shall be set forth in writing and shall contain provisions on the amortization or compensation of the expenses either through offsetting the expenses against rental payments, or payment for their fair market value.”

7. Therefore, there is no disposal of Lease Hold Improvement. However, should an occasion arise where UNDP is able to dismantle the improvement in line with the terms and conditions of the lease and dispose of the item, the disposal processes laid down under the equipment POPP should be followed.
8. When a lease is terminated before the Lease Hold Improvement is fully depreciated, the undepreciated amount (NBV) of improvement in UNDPs Atlas Asset module will need to be written off the books in full. Such Write-Offs should follow the proper approval mechanisms laid down for Write-Offs under the POPP Furniture & Equipment Disposal and Write-off

Characteristics of Leasehold Improvement

9. The improvement must be made to leased property;

10. UNDP must pay for the improvement (either up front or over the remaining term of the lease); or a donor performs improvement on behalf of UNDP. (In such cases, a fair market value will be used to determine to the value equivalent to what a rational willing buyer and a rational willing seller are willing to transact for the item in a competitive market.)

11. The improvement must provide benefits that are long-term in nature (i.e., extend over more than one reporting period);

12. The improvement becomes part of the property.

13. After the lease is terminated by either UNDP or the landlord, the Leasehold Improvements become the property of the landlord, who may do whatever he/she wants with the improvements. Alternatively, UNDP may be required to decommission the Leasehold Improvements at UNDP’s cost. This action is addressed in the “Decommissioning and Similar Costs” section below.

14. Before making any improvement, UNDP Offices should ensure that the lease terms permit such improvements. For instance, it may be the case that the removal/decommissioning costs are captured when the works are agreed with the Landlord. The improvements must be factored in as part of the overall process of UNDP’s engagement/continuing relationship with the Landlord.

Disallowed improvements

15. When leasing premises, there are some items that cannot be considered as leasehold improvements. These items are those that can be moved or taken out of the building when UNDP’s lease term comes to an end. Examples of these would be movable wall partitions or panels, mobile workstation partitions, movable phone lines, appliances, office furniture, equipment, signs that can be easily removed and carpeting that is not attached to the floor. These items are mostly classified as Furniture and Fittings (F&F), not Leasehold Improvements. Such items should be recorded as Furniture and Fittings in line with the PP&E policy on Furniture & Equipment.

16. If these movable items are left behind by UNDP when the lease comes to an end, they are treated as the property of the landlord because they are considered abandoned and must be written off by UNDP.

17. Mobile buildings such as trailers or mobile homes are not considered Leasehold Improvements.
18. Repairs and Maintenance expenditure should not be classified as Leasehold Improvements as these are improvements done in the normal course of business e.g.:

   a) Wallpapering and painting  
   b) Caulking seams  
   c) Repairing a roof  
   d) Mending plaster  

19. In case of ambiguity with this policy, the respective unit should consult the General Operations/Bureau for Management Services for clarification.