Case Study #1
Base Year Audit Generates Enormous Savings For Tenant

Project Outline

A tenant leased 170,000 square feet in a newly completed 300,000 square foot office building, owned by a local developer. During the second year of the lease the tenant received a statement from the owner with the computation of the base year expenses. Recognizing the importance of establishing a proper base year, the tenant engaged PSA to do a base year audit.

PSA Added Value

The audit confirmed that the owner had grossly understated the amount for base year real estate taxes. The lease defined base year taxes as the amount of taxes, which would be paid during the first fiscal year that the building was “fully assessed as a completed structure”. The owner interpreted this to mean that the base year taxes would be the taxes for the first fiscal year that the building was a “completed structure”. The building structure was completed during fiscal year 2004, thus the owner contended that the fiscal year 2004 tax amount of $653,000 was the base year amount. However, a review of the City Assessor records for fiscal year 2004 revealed that the assessor had given the owner a 24% discount in the assessed value. This discount was provided since the building, although being 100% finished, was not fully rent producing. The discount in the assessed value then translated to a 24% discount in the actual taxes paid. PSA contended that the tax base year must be fiscal year 2005, the first year that the building would be fully assessed.

PSA Results

The owner conceded to PSA's position with one change. Rather than using fiscal year 2005, the base year was re-established as the amount of taxes, which would have been paid in fiscal year 2004, had the assessor not given the 24% discount. PSA successfully reset the base year amount at $888,000. Increasing the tax base year by $235,000 generates an annual saving to the tenant of $133,000 and $1,463,000 over the lease term.

Total Savings: $1,463,000