

Case Study #11

Audit Highlights Numerous Errors - Saves Tenant \$1.1 Million

Project Outline

A tenant net-leased 190,000 square feet of space in a 300,000 square foot R & D building. The tenant felt that the operating expenses were too high and met with the owner to discuss them. The tenant was not satisfied with the responses given by the landlord so they engaged PSA to perform an audit.

PSA Added Value

The audit uncovered four major areas where the landlord charged the tenant for questionable expenses. First, the tenant paid a cleaning vendor directly to clean its space. However, the landlord incorrectly grossed-up all cleaning related costs, thus causing the tenant to also be charged for cleaning as part of the common area building expenses. Second, the owner had the building's financial statements audited as a requirement of a mortgage. The tenant received no benefit from the audited financials and therefore should not subsidize an owner's cost. Third, the owner charged the property for home office personnel involved in the preparation of the audited financial statements and the tax returns. These costs are incurred only for the benefit of the owner and not the tenant. Fourth, the building had an in-house café. The owner was charging the café's share of operating expenses and taxes to the remaining tenants in the building. This is not unusual when a building is somewhat isolated from other eating establishments as companies feel that it is better to subsidize a café than to have their employees leave the building to eat lunch. However, the owner was also receiving monthly income from the café owner, but was not offsetting this income against the operating expenses and taxes. PSA successfully argued that the excess charges noted above should not be the responsibility of the tenant.

PSA Results

The owner agreed to eliminate the expenses noted above and to offset the café income against the building operating expenses. The lease allowed the tenant to audit the prior two years and also had a look-back provision which stated that if an audit was done, and the owner agreed to reimburse the tenant for a specific overcharge, the tenant's auditor could go back an additional two years to determine if the owner had over billed the tenant for those specific items in the previous years. The lease also provided for interest due to the tenant if an audit revealed overcharges by the landlord. The tenant received a cash reimbursement of \$450,000. In addition, the changes agreed to by the landlord will save the tenant an additional \$630,000 over the remaining lease term.

Total Savings - \$1,080,000