Case Study #12
Tenant In Mixed Use Complex Substantially Overbilled by Landlord

Project Outline

A tenant leased 200,000 square feet of space in a 1,200,000 square foot office building. The office building was part of a 3,000,000 square foot mixed use complex containing retail stores, hotels, a supermarket and parking garage. The tenant had seen a large increase in operating expenses and taxes and engaged PSA to audit the landlord's records.

PSA Added Value

The audit confirmed that the owner was improperly charging the office building for certain expenses. There were three key items which the audit revealed. First, the owner was over allocating real estate taxes to the office building. Real estate taxes which should have been charged to other components of the complex were being charged to the office building. Second, the property was managed by an affiliate of the owner. The lease stated that a management fee paid to an affiliate of the owner could not exceed the amount which would be paid to a third-party property manager based on an arm's length transaction. In spite of this the owner/manager was charging a management fee which was approximately twice the market rate paid to a third-party manger. Third, the lease provided that no executive personnel above the level of property manager would be charged to the office building. The owner had hired an on-site general manger to oversee the operations of the entire complex, plus additional property interests which the landlord owned in another large metropolitan area. The compensation paid to this person was well beyond the amount which would be paid to a property manager to manage a 1.2 million square foot office building. PSA successfully argued that the excess charges passed on to the office building were in conflict with the lease covenants.

PSA Results

The owner agreed to recalculate the operating expense and real estate escalations charged to the tenant. The tenant was reimbursed $801,000. Of particular note is the fact that PSA did its audit of the expenses in the tenant's last year of its lease. Had the tenant engaged PSA earlier in its lease term the savings to the tenant would have been in the millions of dollars. The tenant now engages PSA to audit all of its locations annually.

Total Savings - $801,000