

Case Study #13

Landlord Incorrectly Includes Capital Amortization In Operating Expenses

Project Outline

A tenant leased 140,000 square feet of space in a 145,000 square foot office building. The tenant had previously engaged PSA to perform audits and in the normal course of business asked PSA to perform a “desk top” audit of the 2006 expenses to determine if an audit would be advisable. Although the expenses did not initially appear out of line, PSA did ask the owner a few questions about specific expenses and based on those responses PSA recommended that a complete audit be performed.

PSA Added Value

The lease states that the only capitals which can be amortized and included in operating expenses are those that are there for the purpose of i) complying with a new law or ii) items installed to increase the operating efficiency of the Building. The owner had repaved the parking lot and had included the amortization of this capital expenditure into operating expenses. PSA pointed out the incorrect charge to the owner and the expense was eliminated from the operating expenses.

PSA Results

The owner agreed to re-calculate the operating expenses for 2006 and eliminate the amortization for all future years relative to this capital project. As a result of the audit the tenant received a cash reimbursement of \$51,000. In addition, the changes agreed to by the landlord will save the tenant an additional \$589,000 over the remaining lease term.

Total Savings - \$640,000