

Case Study #2

Current Year Lease Audit Opens Door To Base-Year Expense Audit

Project Outline

A tenant leased 142,000 square feet of a 200,000 square foot office building. The tenant suspected that the operating expense escalations being passed through to it were high, as they had grown by 11% from the base-year to the second lease year. Despite independent discussions with ownership, the tenant became frustrated with the lack of response and engaged PSA as they realized that an independent, experienced lease auditor would best serve its interests.

PSA Added Value

The preliminary audit revealed nominal overcharges by the owner during the second lease year, but more importantly, highlighted the fact that the base-year expenses had been understated. Therefore, PSA desired to complete an in-depth audit of the base-year operating expenses. The owner attempted to nullify the tenant's right to audit the base-year since the time frame for that audit had passed. PSA argued that the current year audit must include an audit of the base-year, since the base-year amount is integral to determining how much the tenant will pay in escalations during all years subsequent to the base-year. Consequently, the owner relented and agreed to deliver supporting documentation necessary to proceed with both the current year and base-year audits.

The landlord had made numerous errors in calculating the base-year expense amount.. These included i)conflicting gross-up percentages of both 95% and 100%, ii)no gross-up of cleaning contract expense, iii)no provision for the cost of the cafeteria subsidy, iv)improper amortization of an Energy Management System, v)understating the cost of management personnel allocated to the building and vi)overcharging the tenant for electricity for lights and plugs, thus disregarding specific lease provisions.

PSA Results

PSA's audit resulted in increasing the base-year operating expenses, thereby reducing the tenant's operating expense increases over the entire lease term. The tenant received an immediate reimbursement of \$60,000, and achieved a total savings of \$214,000 over the lease term as a result of these changes. PSA was also successful in helping the tenant reduce the tenant electricity cost, both retroactively and prospectively. This resulted in an immediate reimbursement of \$50,000, and saved the tenant a total of \$90,000 over the term.

Total Savings - \$304,000