

Case Study #4

Base-Year Audit Reveals Incorrect Tenant Pro-rata Percentage

Project Outline

A tenant leased 35,000 square feet of space in a building which contained 400,000 square feet of office space and 100,000 square feet of retail space. The tenant had been to a presentation by PSA and was cognizant of the importance of auditing the base-year operating expenses and real estate taxes. Therefore, PSA was engaged to perform the audit.

PSA Added Value

The audit substantiated the fact that the owner had properly established the base-year amounts for operating expenses and taxes. However, in the course of the audit PSA recognized the fact that the owner was overstating the tenant's pro-rata percentage for its share of the building's expenses. When the owner established the amount of the operating expenses for the building it had included the expenses for both the office and the retail areas. However, the owner had calculated the tenant's pro-rata share based only on the tenant's square feet as a percentage of the square feet in the office building and not the square feet in the total building. This error had overstated the tenant's pro-rata share by approximately 175 basis points.

PSA Results

The owner agreed to recalculate the tenant's pro-rata percentage based on the amount of square feet occupied as a percentage of the square feet in the entire building, including the retail area. Based on a projected annual increase of 4% for operating expenses and taxes the reduction in the tenant's pro-rata share will save the tenant \$432,000 over its lease term.

Total Savings - \$432,000