

Case Study #5

Multiple Owners In Tenant's Base-Year Creates Understatement Of Expenses

Project Outline

A tenant leased 120,000 square feet in a 350,000 square foot suburban office building. The tenant's lease provided for an operating expense base-year of 2005. The building was owned by three different owners during 2005. The tenant was aware of the difficulties in accurately determining the operating expenses for a particular year when there are multiple owners and was also aware of the importance of auditing the base-year expenses since this amount would be the threshold against which all future year's expenses would be compared to. PSA had been engaged by the tenant for audits at other locations and the tenant engaged PSA to once again verify the accuracy of the base-year expenses at this location.

PSA Added Value

The audit revealed two key errors. First, the owner which owned the building at the end of 2005 had consolidated the 2005 expenses from those that they had incurred plus those incurred by the two previous owners. However, they had failed to include all of the expenses for the two previous owners. Second, although the average occupancy during the year was 54% and the lease provided that the expenses would be adjusted to what they would be if the building was 100% occupied the owner had not properly grossed-up the utilities and contract cleaning to the amount that they should be for a fully occupied building. PSA was able to reconstruct the 2005 expenses from the three owners and then gross-up the utilities and contract cleaning expenses to what they would be had the building been 100% occupied.

PSA Results

PSA was able to successfully have the owner increase the base-year operating expenses by \$268,000 and was also able to increase the base-year real estate tax amount by \$79,000. As a result of the audit the tenant will save \$724,000 over its lease term.

Total Savings - \$724,000