

## **Case Study #6**

### **Base-Year Audit Reveals Major Errors By Landlord**

#### **Project Outline**

A tenant leased 110,000 square feet in a 250,000 square foot office building. The tenant had previously engaged PSA to perform a base-year audit at another location and based on the results of that audit it once again engaged PSA to perform an audit for this leased premises.

#### **PSA Added Value**

The audit revealed that the owner had made two major errors when calculating the base-year expenses. First, the lease provided that if the building was less than fully occupied during any lease year, expenses which vary with the building's occupancy would be adjusted to what they would be if the building was 100% occupied. The building was 88% occupied during the base-year. However, the owner only adjusted the variable expenses to what they would be if the building was 95% occupied. Therefore, expenses such as cleaning contract, cleaning supplies, water & sewer and trash removal were understated in the base-year amount determined by the landlord. Second, when the owner grossed up the management fee expense it failed to account for the fact that although several tenants were occupying their spaces they were not paying any rent due to free rent provided in their leases. Therefore, although the physical occupancy of the building was 88%, the economic occupancy of the building was less than 80%. PSA convinced the owner that the management fee should be based on a fully occupied building with no free rent taken into account when determining the management fee.

#### **PSA Results**

The owner agreed to recalculate the operating expenses to what they would be based on a fully occupied building and also to re-calculate the management fee based on no deductions in gross rent due to free rent provided to tenants. Based on these changes the owner increased the building's base-year operating expenses by almost \$200,000 which saves the tenant \$500,000 over its lease term.

**Total Savings - \$500,000**