

## **Case Study #7**

### **Base-Year Audit Reveals Landlord Knowingly Understated Electricity Expense**

#### **Project Outline**

A tenant leased 100,000 square feet of space in a 300,000 square foot office building, which had just been constructed. The tenant's base-year for operating expenses was calendar year 2006 during which there was substantial vacancy in the building. The broker representing the tenant was well aware of the value of a base-year audit, especially when the base-year occupancy was quite low. They recommended that the tenant speak with PSA about having a audit performed.

#### **PSA Added Value**

PSA reviewed the owner's calculations for each of the expenses in the base-year and was in agreement with all of them except for how the owner had determined what electricity expense would be set at. The lease provided that if the building was less than fully occupied the expenses would be adjusted to what they would be if the building was fully occupied. The actual electricity expense for the year was \$550,000. Based on the fact that the building was only 64% occupied it would be reasonable to assume that the \$550,000 should be adjusted upward to account for greater electrical consumption if the building was fully occupied. However, the owner actually decreased the expense to \$450,000! PSA contested the method used by the owner when they established the base-year expense for electricity and eventually was able to have the owner agree to adjust this expense to \$601,000.

#### **PSA Results**

As a result of this adjustment to the base-year electricity expense the tenant will save an annual amount of \$50,000. There are no immediate savings to the tenant for the base-year, but over the tenant's lease term the tenant will save \$350,000.

**Total Savings -\$350,000**