

Case Study #9 Net-Lease Tenant Finds Value In The Word "Reasonable"

Project Outline

A tenant net-leased 45,000 square feet, in a 1,200,000 square foot office building. The tenant believed it was paying too much in operating escalations compared to the local market. The tenant also questioned an excessive level of services provided to the building, and even the necessity for some of these.

PSA Added Value

The lease provided that all "reasonable" expenses incurred in the operation and maintenance of the building would be included in the operating expenses. This language was crucial, as the audit identified numerous operating expenses paid by the tenant, which were grossly in excess of those operating expenses observed in competitive buildings in the market, and thus PSA argued that they were not "reasonable". Those expenses included i)security, ii)landscaping, iii)seasonal decorations, iv)amortization of capital improvements, v)salaries for leasing personnel and vi)severance pay for a leasing agent.

PSA Results

PSA successfully identified \$84,000 in overcharges and engaged the landlord in reducing these costs. The landlord agreed to reimburse the overcharges through a reduction in the tenant's rent going forward. In addition, the lease was extended and the appropriate lease clauses were inserted to protect the tenant from further overcharges for these specific items.

Total Savings - \$84,000