



Insider's View to Corporate Real Estate



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The Three Times Your Company Is Most Vulnerable To Operating & Tax Expense Reconciliation Overcharges

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Earlier this month, I had the pleasure of being the keynote speaker for a global webinar hosted by IFMA's Corporate Facilities Council. IFMA is an acronym for International Facilities Management Association and the Corporate Facilities Council is the largest of IFMA's councils with members in 46 countries. Webinar attendees learned how to protect their company against overpaying operating and tax expense reconciliation invoices.

Below I have revealed the three times your company is most vulnerable to operating and tax expense reconciliation overcharges, along with actual examples among the \$35,000,000 in errors our lease auditor has exposed to date. For additional information, please feel free to contact me.

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1.) When there is a dramatic increase in building expenses because this likely indicates an error has occurred.

As an actual example, a company leased 33,000 SF which was 17% of a building. The tenant noticed that operating expenses for its gross lease had increased 22% in year two of the lease and invoked its lease audit right. The audit revealed the owner had used different methods of accounting for expenses in year two as compared to when the base year expenses were determined the previous year. Errors included how the expenses were grossed up, the method for calculating the tenant's pro-rata percentage, and improperly accounting for capital expenditures. The audit exposed these errors which saved the tenant \$217,000.

2.) Following the sale of your building because the operating philosophy can change. There can also be glitches in obtaining information from a previous owner or problems with new software.

As another actual example, a tenant leased 275,000 SF which was 47% of a building. Their triple net lease stated that no expenses related to the parking garage are to be included in operating expenses. The former owner adhered to this clause but the new owner did not. As a result of the lease audit, the new owner agreed to remove parking revenues from the management fee calculation which saved the tenant \$3.4 million.

3.) Once base year expenses are established because if there is an error initially, it will continue throughout the lease term.

As a final actual example, a tenant leased 31,000 SF which was 18% of a building. Their gross lease indicated that if the building was not fully occupied then operating expenses would be adjusted as if the building had been. The owner made numerous mistakes when it grossed up the base year expenses. As a result of the lease audit, the base year amount was increased in accordance with the lease terms which saved the tenant \$236,000.

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About the Author

Carrie S. Holstead is the Chairman Emeritus of ITRA Global with experience representing users of corporate real estate in nearly 300 markets around the world. She is also the Founder, President and CEO of the longest established tenant representation and advisory firm in Pittsburgh, Pennsylvania. Carrie was recently honored as a Woman of Influence by *Real Estate Forum Magazine*, is the acclaimed author of the monthly *Insider's View To Corporate Real Estate*, is a frequent speaker, and has made a number of guest television appearances. If your company has a local or global corporate real estate need, contact Carrie Holstead at **+1 (412) 255-3737**. To receive the *Insider's View To Corporate Real Estate* electronically, sign up at **www.carrieholstead.com**.