

Insider's View To Corporate Real Estate

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6 Things To Know Before Paying The Operating & Tax Expense Invoice You Will Soon Receive

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If you have a full-service lease, you will soon receive an invoice for operating and tax expense increases. Before approving this invoice, check the following to assure your firm does not over pay, or if you are a client of ours, simply send us your invoice and we will check the following **at no charge**: 1.) Confirm the building is not “growing”. This is an issue around the U.S. and we recently found another case of it in Pittsburgh; 2.) Assure the base year or stop amount is accurate; 3.) Certify the percentage of the building for which you are being charged is in accordance with your lease; 4.) Determine if the increases are reasonable compared to previous years and comparable buildings; 5.) Make sure the cap on operating and tax expenses, if any, coincides with your lease; 6.) Be careful your firm does not finance the extended operating hours of other building tenants, such as firms working multiple shifts, schools with evening classes, a hotel operating on an ongoing basis seven days a week, etc.

A “**growing building**” is one in which the size designated by the landlord increases, even though there has been no addition to the building. As an example, if you lease 50,000 square feet in a 500,000 square foot building, your percentage of the building is 10% and therefore you pay 10% of the increases in operating and tax expenses. If that building “grows” to 550,000 square feet and your prorata share remains 10% then you pay operating and tax expense increases for 55,000 square feet, thereby increasing your cost by including an additional 5,000 square feet of space.

The **base year or stop** is a designated year or dollar figure over which your firm is charged for increases in operating and tax expenses annually, in addition to your base rent. By way of example, if operating and tax expenses in the base year, which in this case is the first full year of occupancy, equate to \$10.00 per square foot, and increase to \$10.50 per square foot in the second year of the lease, then \$.50 per square foot will be added to your base rent cost in the second year of the lease, and as these costs increase thereafter they will be passed through annually as an additional cost to your lease.

The **percentage of the building** along with the building and premises size should be clearly defined in your lease, as this will dictate the percentage on which your operating and tax expenses are based. As an example, if you lease 50,000 square feet in a 500,000 square foot building your percentage is 10%. If the building “grows” to 550,000 square feet and your lease indicates it is a 500,000 square foot building, then either the square feet of the building should be corrected or your percentage of the building should be reduced to 9.09% in order to reflect the accurate square footage leased of 50,000.

To determine if the increases in **operating and tax expenses are reasonable**, compare them to previous years and comparable buildings. Assessing these expenses will reveal if further investigation or an audit is necessary, which is a right that should be granted in your lease.

Make sure the **caps on operating and tax expenses are as negotiated** in the lease, if any. A new software system, or different owner, can easily overlook protections which are unique to certain tenants.

Firms having extended operating hours in your building, such as those with multiple shifts, schools with evening classes, a hotel operating on an ongoing basis seven days a week, etc, will have operating expenses exceeding those of typical office tenants. Those with normal office hours need to assure they are not financing the extended operating hours of other building tenants.

About the Author

Carrie S. Holstead is the President and CEO of the longest established tenant representation firm in Pittsburgh, Pennsylvania and is the recent past Chairman of the Board of ITRA Global, one of the largest organizations in the world dedicated to representing users of corporate real estate. If your company needs to expand, contract, merge, relocate, or renew an office lease(s), or has other corporate real estate needs, contact Carrie Holstead at 412.833.1030 or carrie@carrieholstead.com. To stay informed or see our work experience and media appearances, visit www.carrieholstead.com.



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