



## Cresa Blog

# What Am I Paying For?

## Operating Expenses, CAMs, etc.

March 28, 2016 | by [Rick Pearson](#)

In most "Gross" leases, there is a provision whereby the Tenant is responsible for increases in operating expenses. In office space, it's either a Full Service Gross lease or a Modified Gross lease. In industrial, it's just called a Gross Lease. Although some landlords don't charge their tenants for these costs, many do. Since the calculations are cumbersome and the concept is difficult to grasp, I see many mistakes made, which can result in tenants paying more than they are actually responsible for.



The first step is to be sure you have all of the information needed to determine what you are responsible for. Most of the time, the invoice that shows what you owe does not come with any back-up information.

Here is what you should have. If you don't have it, simply ask for this information as your first step.

- Base Year (calendar or period of time)
- Base Year expenses broken down into categories (Taxes, Insurance, Janitorial, R&M, etc.)
- Average occupancy during the Base Year (for multi-tenant projects)
- Percentage share of the building your premises is
- Comparison Year or period
- Comparison Year expenses broken down into the same categories as the Base Year
- Average occupancy during the Comparison Year

It is very important to see how much each category of expenses increased during any period of time. Most of the

time the landlord will give you the total expenses for the Base Year and Comparison Year, and then apply your % to that. That information alone does not give you enough information to go by.

Once you can see how much each category increased, the following are some things to look for and reasons for questioning it further.

#### Property Taxes increasing by more than 2%

- The primary reason property taxes would increase by more than this amount is due to a sale, which many leases provide tenant protection for.
- Many properties have sold at high prices in the past 2 years, so the potential for property taxes to increase is very real.

#### Increases in Repair and Maintenance cost

- Some R&M costs do not have anything to do with the general repair and maintenance of the property. For instance, new flooring in the common area lobby or major repairs to the mechanical system could be considered "Capital Improvements". If this is substantial, it is worth looking into in greater detail.
- Some R&M costs may have been caused because a new tenant is moving into the building. This is not an everyday R&M cost and should be removed.

#### Increase in Management, Utility and Janitorial Costs

- We call these "variable expenses," which means that they increase and decrease based on how much space in the building is occupied. Most leases provide that these costs are adjusted to a 95% or 100% level. This applies to both the Base Year and the Comparison Year. Just because the costs increase, does not mean you are responsible for the cost.
- This is the one area where the calculations get difficult for both the property manager and for anyone trying to determine if it was done properly.
- This is the area where the Average Occupancy comes into play. Most Landlords don't provide this information and may not even know it. In that case, there is no basis to charge any increases in these variable expense categories.

To further confuse things for you, Landlords typically have the right to estimate these charges at the beginning of each year and then make an adjustment if needed at the end of the year. Two things to consider on this topic.

- You don't have the right to formerly audit the estimate, but you can ask for the back-up information that supports the estimate. Most likely, you will have to pay it and then question it when you get the reconciliation the following year.
- Be sure the Landlord does a proper reconciliation the following year and makes any adjustments necessary.

In summary, be sure you have the correct information to evaluate what you are being asked to pay, be sure you are actually obligated to pay for each portion of the increase, and be sure all of the proper adjustments have been made. It's your right to understand what you are paying for, so don't hesitate to ask your landlord for a detailed explanation.