

The Challenge

A new client was skeptical of the value that FHO Partners' lease audit team could provide to them. In order to demonstrate our value, we offered to perform a review of their first year's operating cost escalations for their newly opened office in a multi-use property.

Our client had an existing professional relationship with their landlord. Therefore, our approach to the analysis required a heightened level of sensitivity and professionalism in order to maintain the relationships between us and our client, and our client and their client, the landlord.

The Approach

An initial review of the lease document and first year operating costs revealed above-market expenses at the property, and the omission of pertinent lease language. We discussed these concerns with our client, who asked us to proceed with a complete audit of the landlord's records.

The Implementation

Step 1.

Prior to the on-site audit we performed a thorough analysis of the lease document. This analysis identified the following weaknesses in the lease:

- An extremely broad definition of operating costs with no standard exclusions
- Limitations as to how capital expenditures could be handled
- Omission of an operating expense budget
- A total building square footage that could vary when determining the pro-rata share of the lease's various premises.

Step 2.

Our lease audit team toured the project to gain an understanding of how the mixed-use property operated and also contacted local real estate professionals to gain background information on the landlord and verify market data. The background information revealed that the project was the landlord's first experience with a mixed-use property.

Step 3.

FHO Partners performed an audit, at the landlord's office, of the actual billed expenses. In addition the audit team visited the local assessor's office to discuss the determination of assessed values in relation to the various project components (office, retail, residential, and parking garage).

The audit revealed the following:

- a) An excessive amount of inappropriate allocations for various shared expenses,
- b) An above-market management fee being paid to a related party,
- c) Basic accounting errors and various excluded expenses.

FHO Partners prepared a detailed audit report outlining all of the errors and presented it to the landlord for review.

The Results

After reviewing FHO Partner's audit report, the landlord acknowledged the accounting and allocation errors in its initial determination of the operating costs. As part of the audit settlement, FHO Partners negotiated an amendment to our client's lease which provided:

- more protective lease language for the tenant, our client.
- permanent adjustments to the allocation of certain shared expenses, which resulted in a refund for the year audited of over \$53,000 and minimum fixed savings over the lease term of \$360,000.

FHO Partner's approach to the audit process not only resulted in substantial savings for our client, but also preserved the relationships between all parties to the lease. Our client subsequently engaged FHO Partners to perform an operating expense review for each of their locations across the country.

This client has realized savings of over \$245,000 to date.