

PARTNERS

Commercial
Real Estate
Value-Advisors

After Hours HVAC

While reviewing a client's lease in preparation for an audit, it was noted that the tenant was to be provided 1,000 hours of free overtime HVAC each lease year. During the audit FHO Partners discovered that this negotiated provision had been forgotten by the tenant and overlooked by the landlord. The landlord immediately issued a refund of **\$120,000** for the over-billed dollars to-date and a tracking method was implemented to ensure that the additional **\$225,000** in credits were properly captured over the remaining lease term.

Understated Base Year

When a client enters into a base year lease, FHO Partners always recommends a full audit of the base year dollars. Upon a detailed review of these expenses for a client who had leased 80% of a 200,000 sf suburban building, numerous errors were identified including: miscalculated gross-ups, missing monthly contract payments and incorrect on-site payroll allocations. The review resulted in an increase in the base year by **\$76,000**. Within a short period of time the tenant expanded its occupancy to 100% of the building, and the audit ensured proper expense calculation for the remaining 10-year lease term, saving the tenant **\$646,000** overall.

Property Change of Ownership

FHO Partners' discovered that a new landlord had instituted different accounting practices from the prior landlord during a review of a client's year-end operating expense reconciliation. The changes in the accounting practices included new expense line items and a different methodology for grossing up the variable expenses. FHO Partners had audited the base year dollars for this lease, which allowed us to provide documentation of the different accounting methodology used to calculate the base year versus the current operating year. As a result, the new owner agreed to increase the base year amount to reflect the revised accounting practices, reducing our client's current year invoice by **\$18,000**.

Inappropriate Allocation of Expenses

A large medical technology company occupied approximately 150,000 sf in two adjacent office buildings under a 10-year net lease. The tenant provided for many of its own building services including cleaning, trash removal and electricity for lights and plugs. A review of the historical year-end operating expense reconciliations revealed that the landlord had failed to remove the cost of providing these same services to the other building tenants from the operating expense pool. This meant that our client had been paying 100% of its direct expenses for these services plus 57% of the cost of providing the same services to the other building tenants. FHO Partners obtained a refund of **\$134,000** for our client for the overbilled costs to-date with an estimated **\$140,000** in savings expected over the remaining lease term.

Real Estate Taxes

During the review of a client's real estate tax statement, FHO Partners determined that the landlord failed to deduct the taxes associated with the property's on-site retail spaces and public parking garage, as was required in the lease language. The landlord acknowledged this error and issued a revised statement, reducing the taxes due by **\$36,500**.

Capital Expense Amortization

While approving a client's year-end operating expense statement, FHO Partners noticed that the landlord had included a new line item for the amortization of parking lot renovations. Further investigation revealed that the landlord was amortizing these expenses over a substantially reduced useful life period - 5 years - versus 15 years as required by IRS standards. Based on our analysis, the amortization schedule was subsequently revised. This resulted in an expense reduction of **\$90,000** and additional savings of **\$60,000** over the remaining three years of the lease term.

Base Rent Payment Review

During the initial review of a client's historical base rent payments, FHO Partners discovered several discrepancies between the amounts due and the amounts paid by our client's accounting department. After completing an in-depth analysis of the accounting records, we discovered our client had made substantial overpayments due to: overlooked free rent periods, forgotten prepaid first month's rent amounts and incorrect rent commencement dates. Our client received credits for over **\$127,000** in overpayments and, in an effort to avoid such errors going forward, they engaged FHO Partners to approve their monthly rent expenses on an ongoing basis.

Management Fees

An audit conducted by FHO Partners indicated that our client was being charged above-market management fees and that these fees were not being fairly allocated to all of the tenants in this mixed-use property. On our client's behalf, we challenged both the fee amount and the allocation methodology, which resulted in the landlord agreeing to revisions. The initial savings to our client was **\$27,000** for the calendar year audited, with projected additional savings of **\$108,000** over the remaining lease term.

Owned Property Review

A healthcare provider engaged FHO Partners to review its operating expenses for several locations, including both owned and leased properties. In one of the client's owned properties FHO Partners identified several ground floor retail tenants who were not being appropriately charged for operating expenses, real estate taxes and utilities. Our client recovered **\$225,000** once they properly allocated and invoiced the retail tenants for the appropriate expenses. Additionally, upon review of our client's operating expense statements for a 75,000 square foot leased location, we identified that the landlord did not correctly gross-up the base year amount. FHO Partners negotiated a recalculation of the base year dollars which saved our client **\$330,000** over the lease term.

Portfolio Review

FHO Partners provides on-going lease expense review, as well as lease audit services, to a biotechnology company's Massachusetts real estate portfolio. During a single calendar year, FHO Partners recovered **\$330,000** for this client, representing savings of \$0.60 per square foot. Issues identified included: miscalculations on annual operating expenses statements; uncollected cleaning credits; unclaimed sublease profits; and an error on the settlement statement for a property sale.

Sublease Profit Payments

A client subleased a portion of their leased premises at a rent higher than what they were paying the landlord. Per the lease, our client was obligated to share any sublease profits with the landlord. FHO Partners reviewed the landlord's sublease profit calculation and found that it was not in compliance with the lease. The landlord did not correctly account for transaction, brokerage and legal fees and overlooked the variance between the tenant's and subtenant's assigned base years. The calculation was corrected, which resulted in our client reducing its payments to the landlord by **\$13,000** annually.

CPI Escalation Revision

Our client leased its headquarters space and the property was subsequently sold. The lease provided for an annual CPI escalation of the base rent and the new landlord wanted to modify the methodology used to calculate the yearly increase. FHO Partners successfully disputed this revision which would have resulted in an estimated **\$130,000** increase to the client's annual rent.