MAZIROW

COMMERCIAL, INC.

Tenant Representation & Advisory Real Estate Services

CAM Costs & Operating Expenses During Lease Negotiations

Before you sign a lease for any space in a building, you should know all of the costs that make up the CAM costs and operating expenses (OPEX) for that building —and how much of those you costs you will be responsible for?

You can avoid getting an unpleasant surprise when you receive the CAM and OPEX rent bill by addressing these items during negotiations to nail down these costs. But be prepared to ask for a disclosure of CAM costs and operating expenses!

If you expect the owner to voluntarily disclose to you all of those costs, you will be disappointed. With ***Mazirow Commercial, Inc.,*** *we will obtain the key documents and ask the key questions.*

There are several key documents relating to office building CAM costs and other operating expenses that can show you whether additional rent will end up wreaking havoc on your cash flow when it's too late—*after you've signed a lease*. If you ask the owner why it didn't disclose those costs to you when you negotiated the lease, the owner may simply respond: "Because you didn't ask about them."

Mazirow Commercial, Inc. will obtain and review the following five types of key documents before you proceed with lease negotiations:

Document #1: Expense schedule. Expense schedules typically break down the expenses by category—such as cleaning costs, energy, and insurance. An owner generally prepares an expense schedule annually and then sends it to tenants after the end of each fiscal year. You should request expense schedules covering the past several years. They will help you determine what—and how much—was charged. Since there are well-established norms for each category of expenses, an expense schedule is a good indicator of whether the building is being managed properly. If you are dealing with a new building, review a budget of its projected CAM costs and operating expenses, including real estate taxes.

Document #2: Historical operating expense/CAM cost data. Review the historical amounts for CAM costs and operating expenses, including real estate taxes. Review the historical data for the past three to five years to estimate what your annual increases might be. Be aware that many owners will resist giving you their historical data unless you have lots of negotiating power; With ***Mazirow Commercial Inc.,*** you will!

If you expect to pay a share of capital improvements, find out when the improvements will need to be replaced. If the improvements will need replacement soon, you won't see their cost in the historical data that you review. But you'll need to keep in mind that they could cause big increases in your share of costs.

Document #3: Accounting of base year expenses. If you are negotiating a base year lease with an owner, ask to see and review an accounting of the base year's CAM costs and operating expenses. For a new building, review a budget for the base year. Be aware that with a base year lease, you are responsible for any increases above the base year's CAM costs and operating expenses. So if the base year's CAM costs and operating expenses are set too low, you'll have to pay a share of very large increases.

Document #4: Utility and tax bills. A five-year history of utility costs and real estate taxes will assist in determining expected costs going forward. Request information on any tax abatements or reductions that have occurred or are planned.

Document #5: Insurance coverage. Review the declarations page of the owner's insurance policies on the building. You want to make sure that you are not required to pay for any insurance coverage the owner already has. And if you will be required to pay a share of the owner's insurance deductible, you will want an understanding of the amount of the deductible.

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8 Key Questions

*To learn as much as possible about the building's CAM costs and operating expenses (OPEX), **Mazirow Commercial, Inc.** will ask these following questions.*

Question #1: *How big is the space?* Find out the square footage of the space that you are considering renting and the method of measurement. That square footage figure is extremely important because your rent and pro rata share of CAM costs and operating expenses, including any real estate taxes, are calculated on it. Find out which measurement standard the owner used to determine the square footage of your space. The owner should have used a measurement standard that's recognized in the industry— such as the standard set by the Building Owners and Managers Association (BOMA) International.

Question #2: Capital improvement projects. Which capital improvement projects are underway or planned? If there are capital improvement projects in progress or planned, you may be responsible for paying a share of their cost. These projects can be expensive - determine those costs before committing to a lease.

Question #3: Energy and electricity. Have any energy conservation measures been implemented at the building/center? Energy conservation measures typically result in cost savings for you and the owner.

Question #4: Tax assessments. Is the owner involved in any ongoing tax appeals for the building, or has it recently won a tax appeal? An owner might not otherwise disclose this information to you, but a successful tax appeal could lower your tax bill.

Question #5: Gross-up clause. Will the lease have a gross-up clause? As a building's occupancy rate rises or falls, certain operating expenses will rise and fall also. These "occupancy-dependent" operating expenses will include such costs as electricity, garbage removal, and HVAC. The fluctuations can lead to big swings in the total operating expenses, which are the sum of the occupancy-dependent operating expenses and non- occupancy-dependent operating. "Grossing up" prevents these big variations

Question #6: Property management. You should find out how much the management fee is. Evaluate the management fee, together with the payroll costs, to determine whether they are within market-level norms

Question #7: Employees and contractors. How large is the owner's staff and what do they do? Because CAM costs and operating expenses typically include staff salaries and wages, find out the number of administrative staff on the building's payroll and what each staff member does.

Question #8: Above-standard services. What does the owner charge for above-standard services? If the owner provides above-standard services—such as freight elevator usage, excess janitorial services, additional utilities, and overtime HVAC— find out its markup for these services and how often they'll increase.

Mazirow Commercial, Inc.* *will negotiate heavily to address all of these issues, researching all landlord documents, providing protection in your lease to minimize CAM and operating expense pass-throughs and insure the lease reflects current market standards on these items. .

Mazirow Commercial is an Advocate for you the Tenant and never represents Landlords - no conflict of interest that is inherent in the standard brokerage model.

Our difference is your advantage.

Sheryl Mazirow, *CCIM*
President

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