

Office & Industrial Lease Expense “Pass Throughs”- Management Fees

Over the years we have found that operating expenses (OE) are among the most misunderstood real estate cost component, particularly because there is no clear standard of how these costs are addressed in leases. OE pass throughs can easily grow over a lease term to significant levels, particularly given the “compounding” nature of how they are typically passed through to tenants. Tightly addressing each component in your lease doc is the first step toward protection. These costs also need to be reviewed regularly for every lease.

One good example is Property Management Fees that your landlord passes through. While it is standard practice to pass these costs through, there are variables involved and the right protective language is key to a tenant’s success in protecting themselves from significant cost overruns. A few questions to consider:

- ❖ Is the management fee going directly to your landlord or an outside vendor?
- ❖ Has the vendor signed a multi-year contract with the landlord at a fixed cost?
- ❖ Does the management company have an office “on site”? If so, is that rental cost being passed through. At what rate, market? The actual rate, etc.?
- ❖ How do their fees compare to “market” for competitively bid management services?
- ❖ Are salaries for the management company’s employees included in the OE? If so, up to what level of employee/ owner?
- ❖ Does the management company manage more properties for this landlord? If so, are those overall fees apportioned equitably?

By now you get the picture. There is a lot of ambiguity that requires close attention and ongoing monitoring.

*Are you concerned about your cost of real estate?
Call Mike for a free consultation.*

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