Common Area Maintenance (CAM Costs)

Operating Expenses - 101
# Types of Leases (2 Most Common)

**NNN (Triple Net Leases)**

1. Tenant pays for all costs either directly, or as a direct pass through.

**Gross, Plus Electric**

1. Base Year with Expense Stop
2. Amortization of Capital over life of the project (if designed to reduce operating expenses)
3. Direct bills for utilities that only benefit the tenant.
Building Factors

USF vs RSF

- Usable square footage is the amount of space a tenant actually inhabits, not including column, doors, window cut outs. The tenant does pay for elevator lobbies and shared restrooms, janitorial closets and electrical rooms.

- These common areas add up to a factor (most often between 15-20%) which is added onto the USF to give the rentable square footage.

Calculating Tenants Pro-Rata Share

- Total RSF of the office space, divided by the total RSF of the Building.

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What is Common Area?

Shared Expenses that Benefit Everyone:

• CAM Janitorial (or every suite if every tenant receives cleaning)
• Central Plant heating and cooling (if shared)
• Elevators
• Security Guard Services
• Grounds Maintenance and Snow Removal
• Parking Lot Maintenance
• Annual City Inspections
• Façade Maintenance
• Anything that benefits EVERY tenant, not just one or two…
• Management and administrative staffing
• Maintenance staffing
Work Order Billback Expenses (Not CAM)

**Direct Bill Expenses:**

- Lights changed inside of a suite
- Replacement of a garbage disposal in a tenant’s suite
- Carpet Repair in a tenant’s suite.
- Use of a dumpster for a purge day for a tenant
- Interior Carpet Cleaning
- Painting the interior of the space mid-lease term
- Labor to hang pictures for a tenant

**Options for Landlord:**

- Refer Tenant to Vendors and they can contract directly.
- Landlord does the work in-house or with a vendor, and marks up the charges by a % for administration of the work.
Tenants with Exceptions and Caps

**GSA and other All inclusive Leases:**

May include the cost for ALL direct expenses in the base rent

- Electric consumption
- Light bulbs
- Carpet cleaning and window blind cleaning
- Repair and maintenance on interior finishes

**Caps on Increases in Controllable Expenses:**

- Janitorial
- Elevators
- CAM repair and maintenance
- Building staffing costs
- Management fees

**NOT**

- Utility Costs
- Taxes
- Insurance

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Gross Up Calculations

Only expense that go up with occupancy costs get grossed up:

- Janitorial and Janitorial Supplies
- Trash Removal
- Electric consumption
- Building Engineering Costs (sometimes)
- Pest Control
- R & M
- Office Supplies
- Management Fees

Expenses NOT grossed up

- Elevator Contract Services
- Taxes
- Insurance
- Roof Repair & Maintenance
- Central Plant Maintenance
- Property Manager and Admin
- Façade Maintenance
- IT Costs
Capital Improvement vs. Repair and Maintenance

What is a Capital Improvement vs. Repair and Maintenance?

Work designed to reduce operating expenses
1. New Roof
2. Façade restoration (not just R & M)
3. New energy management system
4. Lighting controls
5. LED lighting and day light harvesting
6. New energy efficient boilers or A/C
How it Works

Estimates

2017    Tenant Moves into 2,500 sf
         Base Rent is $20.00 psf
         Oper Exp is $ 8.50 psf (Base Year)

2018    Expenses are estimated to be $8.86 psf
         2017 Oper Exp $8.50 sf
         2018 Oper Exp $8.86 sf
         Difference: $ .36 sf

Estimates are sent out the beginning of 2018:
2,500 sf x .36 sf = $900 / 12 months = $50.00 per month

Reconciliations

Beginning of 2019, the 2018 expenses are reconciled

2018 Expenses came to = $8.90 sf
Estimates were sent at    = $8.86 sf
Difference                = .04 sf

Tenant owes 2,500 sf x .04/sf = $100.00 balance

Cycle starts over with 2019 Estimates
Exceptions

• If expenses come in lower than estimated, tenant may be due a credit. This can be painful for a landlord if funds weren’t set aside.

• If expenses come in lower than base year, there is no credit back to the tenant.

• When expenses vary drastically from what was budgeted, a mid-year re-forecast may be necessary.