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Common area maintenance: Don't lose sight of this basic cost recovery

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As commercial property owners and managers face the challenges of the current economic conditions and look forward to developments and expansion in an effort to recover from the economic lulls, we would like to provide a reminder to not lose sight of one of the most basic cost recovery items, common area maintenance (CAM) charges. CAM charges are widely used in commercial leasing, particularly in retail and industrial space leases. Most property managers have a system in place where CAM charges are calculated monthly and billed to tenants monthly without much concern. The calculation for CAM charges can be variable or fixed, neither being especially complex. The lease terms drive the calculation as to whether there is a variable CAM fee or fixed CAM fee. If your leases provide for a variable CAM fee, you should take some time to review your current procedures.

Depending on the language in the leases, CAM charges may include utility costs, tax allocations and escalations, repairs and maintenance, landscaping, advertising, parking lot maintenance, insurance, management fees and other various costs. With a variable CAM fee, the provisions of the lease are usually structured so that each tenant pays a pro rata share of the includable costs. Typically a standard monthly charge is calculated based on a budget and

then at year-end a final adjustment to actual costs. In our experience with variable CAM fees, property managers may have a tracking and billing system in place, but this system is often lacking the proper control and monitoring.

For various reasons including staff turnover or large projects that distract management's attention, we have noticed that the monitoring and control of this process has not been receiving the attention it is due. The review of includable costs from year to year, as well as the billing for the final adjustment should warrant the proper oversight and controls. As properties incur new costs or restructure management fees, these costs may be overlooked in the CAM calculation. If costs are not reviewed to determine if they are includable in the CAM calculation you may essentially be throwing money away! In addition, should your accounting department have changed their general ledger, accounting systems or just methods of tracking costs, it is especially important that these costs are reviewed. Another pitfall to capturing your CAM fees is employee turnover. Pay close attention that this vital step of billing and year end true up from budget to actual is performed should you encounter employee turnover in this function.

The final step of invoicing the tenants for the variance between budget and actual should be done in conjunction with your year-end procedures when you are comfortable that all of the properties' expenses have been recorded. This calculation should be done by a knowledgeable accounting staff and reviewed again by management for completeness. Oversight by management of the

profit and loss statement on a monthly basis provides monitoring that CAM fees are being assessed.

If you suspect that your company has not committed enough attention to this process for any of the reasons that are outlined here, you have options. As the lease governs the costs to be allocated to the tenants you can go back and review prior years for unrecovered costs. There are many factors to consider in this process, including your tenant relationships and current market conditions. Companies have engaged our services to review prior year's calculations and the companies have seen significant benefits.

Additionally, it is important that the language utilized in your leases be reviewed on a regular basis to ensure that you are including all of the appropriate costs to be allocated. An example of this may be if your company undertakes significant efforts on behalf of your tenants towards challenging real estate tax assessments, you would want to make certain that in addition to the real estate taxes being allocated to tenants, the related legal costs or other costs for these tax assessment reductions efforts are also allocable.

In a complex business environment it is often important to revisit the fundamentals. You cannot take standard procedures for granted. A brief review of your lease structures and your cost reporting could yield significant benefits.

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