# Reconciliation Statement, Here Is What You Can Do For A Desktop Review!

|  | 2012 Actuals | 2013 Estimated |
|---|---|---|
| Operating Costs | $2,365,167 | $3,152,655 |
| Less: Base Year | $1,831,822 | $1,831,822 |
| Equals: Excess | $   533,345 | $1,320,833 |
| Times: Pro rata | x          25% | x          25% |
| Amount Owed | $   133,336 | $   330,208 |
| Less: Amt Paid | $   100,244 | ******* |
| Due From Tenant | $     33,092 | $     27,517/mo |

# Demand A Break-Out Of Expenses

| | 2012 Actuals | % Increase | 2013 Estimated |
|---|---|---|---|
| Cleaning | $ 270,819 | 12% | $ 304,158 |
| Utilities | $ 592,446 | 17% | $ 689,632 |
| HVAC | $ 128,323 | 17% | $ 149,579 |
| Electrical | $ 13,171 | 131% | $ 29,700 |
| Elevators | $ 73,850 | -1% | $ 72,500 |
| R&M | $ 260,983 | 21% | $ 314,459 |
| Admin | $ 616,437 | -5% | $ 587,088 |
| Total | $2,365,167 | 10% | $2,147,116 |

# Items You Need To Be Aware When You Receive Your Reconciliation Statement

- State lease form's date by which the annual op ex reconciliation is due (typically bet. March 1st to April 30th), 30 – 90 day window from receipt to object / review landlord's books (review your lease language)

- Date stamp the reconciliation statement so you know when you have received it.  Audit window starts the date you have possession of the recon.

- Be aware of any audit windows.  If you miss an audit window, it may be final and binding even if it is a calculation error.

- If you ask questions of the Landlord in the desktop review, it may prevent you from doing a full-blown audit at a later date.

# Red Flags
## May Want To Do A Preliminary Review

- Personnel changes

- Changes in the methods of accounting

- Billing errors in rent statements and miscellaneous charges

- Lack of cooperation from management staff

- Construction in the building

- Promotions and tenant events

- Increase in each account category which exceed 3-4% per year, may want to do a Prelim.

# On Larger Locations - Preliminary Review Of Historical Data

| | 2010 BY | %Δ | 2011 | %Δ | 2012 | %Δ | 2013 est |
|---|---|---|---|---|---|---|---|
| Landscape | $ 15,543 | 7% | $ 16,599 | 144% | $ 40,555 | -47% | $ 21,628 |
| Admin | $ 110,230 | 1% | $ 111,055 | 4% | $ 115,009 | 5% | $ 121,054 |
| Mgmt Fee | $ 156,285 | 57% | $ 245,267 | 8% | $ 265,841 | 20% | $ 320,111 |
| Janitorial | $ 125,095 | 8% | $ 135,296 | 45% | $ 196,385 | 18% | $ 232,051 |
| Elevators | $ 137,370 | - 1% | $ 136,222 | 2% | $ 139,084 | - 1% | $ 137,262 |
| Insurance | $ 134,262 | - 1% | $ 132,685 | 99% | $ 265,233 | 2% | $ 270,255 |
| Parking | $ 56,251 | 8% | $ 60,551 | -12% | $ 53,254 | 41% | $ 75,001 |
| R & M | $ 285,323 | 67% | $ 475,510 | 6% | $ 505,636 | 19% | $ 602,300 |
| Utilities | $ 242,141 | 25% | $ 301,562 | -1% | $ 299,455 | 19% | $ 355,222 |
| Total | $1,580,619 | 30% | $2,047,304 | 14% | $2,221,398 | 9% | $2,319,130 |
| Less: Base Year | $1,580,619 | | $1,580,619 | | $1,580,619 | | $1,580,619 |
| Equals: Excess | $0 | | $ 466,685 | | $ 754,128 | | $ 974,846 |
| Times Pro Rata | 30% | | 30% | | 30% | | 30% |
| Paid | $ 0 | | $ 140,006 | | $ 226,238 | | $ 292,454 |

# Preliminary Review On Spreadsheet

- On the breakout of expense we just discussed:
  - Base Year artificially low, between $300K - $450K low.
  - At a 30% pro rata share, the savings to tenant would be $90,000 - $135,000 per year.
  - On a 5 year deal, the savings would be $360,000 to $540,00 over the term!

# Other Operating Expenses Issues

- Overbilling of estimated operating expenses
    - Interest free loan
    - Avoiding a tenant audit

- Did not get a reconciliation statement
    - Did you make estimated payment during the year?
    - If yes, 99% of time, landlord owes you money!
    - Many tenant never question the landlord since they are afraid of owing them more money.
    - Wouldn't the landlord want to collect from the tenant as soon as possible if it was owed money??

# Summary Of Discussion

- Desktop Review Checklist
  - Review the lease document and understand the operating expense caps in place (5% – 10%); compare to the reconciliation statement – **Article 26(B)(i)**
  - Ensure the numbers in the breakout of expense tie to the reconciliation statement
  - Ensure the base year number is correct from previous years – **Article 26(A)(i)**
  - Ensure the pro rata share is what is stated in the Lease documents – **Article 26(A)(iii)**
  - Ensure the amount the Landlord stated you paid is equal to the amount you actually paid
  - Redo all the math to ensure the calculations were done correctly