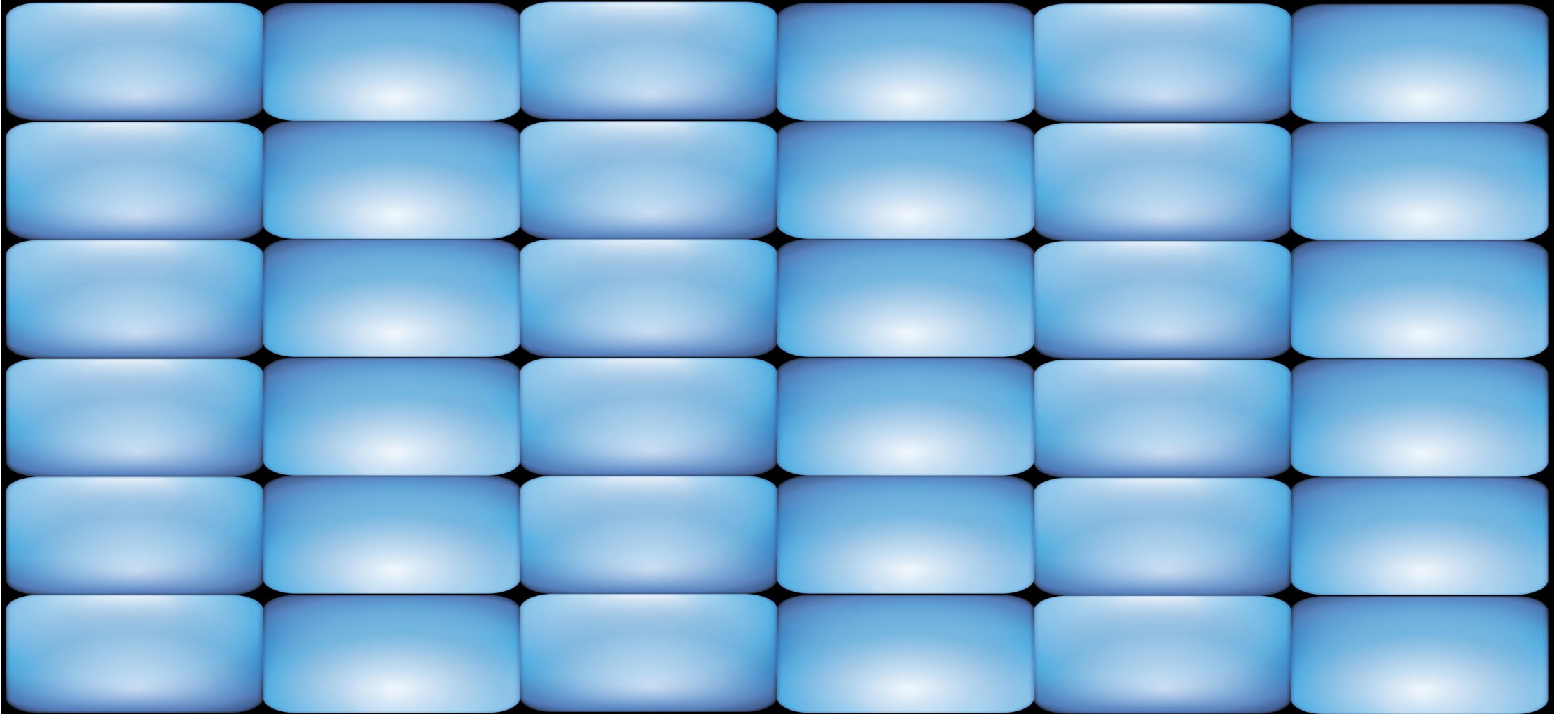


# CAMs 3.0

Presented by BOMA Oakland/East Bay

- Nicole Price, Director  
Cushman & Wakefield
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Overton Moore Properties



# Goal of CAMs 1.0 & 2.0

- Foundational concepts and terms
- Better understanding and overview of CAM Reconciliation process

# Goal of CAMs 3.0

Continued understanding of  
reconciliation process through practice

# CAM Reconciliation Process

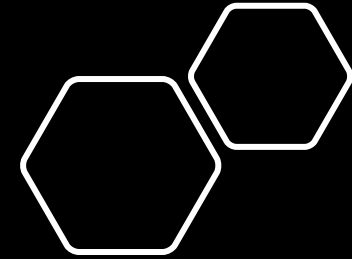
1. Abstracting Lease Language
2. Property level adjustments on year/fiscal end financials
3. Tenant level adjustments
4. Finalizing reconciliation for each Tenant

# Prepping for CAM the Reconciliation Process

- What is the client's/owner's due date
- What is the review/approval process
- What is the format of the recovery itself
- What are the required reports

## Standard Practice - Calendar of Events

<b>December</b>	Tenant opex estimates are prepared for upcoming year with letters and back up sent to the Tenants			
<b>January - March</b>	Previous year reconciliations are performed with goal to complete by March 31 (in time for April/May Statements)			
<b>July - October</b>	Budget is prepared for upcoming year			
<b>December</b>	Once budget is approved, Tenant opex estimates are prepared for upcoming year with letters and back up sent to the Tenants			
<b>**Leases and Clients will ultimately dictate annual schedule</b>				



# Abstracting Lease Language

The lease dictates/defines operating expenses and the parameters surrounding the reconciliation.

**Worksheet #1 – List a few key items to abstract from a lease for the CAM reconciliation process?**

# Abstracting Lease Language

**Worksheet #1 – List a few key items to abstract from a lease for the CAM reconciliation process?**

Base Year  
Pro-rata share  
Inclusions/Exclusions  
Caps  
Gross ups  
Permitted Capital  
Accrual or Cash

# 2019 Recovery Year

## Corporate Center

Tenant Name:	Mighty Mighty Boss Tones		
Pool	Pool 1		
Unit:	100		
Lease ID:	t012215		
Unit Square Footage:	25,317		
Building Square Footage:	375,216		
Billing Address:	1212 Main St		
	St. Louis, MO 63101		
Billing Contact:	Sally Stuthers		
Billing Phone:	888-555-1515		
Billing E-Mail:			
Lease Commencement:	December 1, 2010		
Lease Expiration:	November 30, 2021		
Prorata Share:	6.750%		
Proration Method:	Annual		
Gross-Up:	95%		
Admin Fee:	0%		
Admin Fee included in base year:	No		
Cap Percentage:	5%		
Amortized Capital Improvements:	Yes		
CapEx included in base year:	No		
Number of Recovery Groups	<input checked="" type="checkbox"/> CAM	<input type="checkbox"/> Insurance	<input type="checkbox"/> Mgmt Fee
	<input type="checkbox"/> Tax	<input type="checkbox"/> Utilities	<input type="checkbox"/> Electric
Base Year CAM:	2010		
Base Year CAM Amount:	\$ 145,884.26		

Capital Expenses

Amortized operating expenses that are expected to reduce opex shall be amortized over useful life and amortized amount included in OPEX. Can include maintenance & repair items; changes due to law after commencement date

Exclusions

Standard

incurred under any covenants, trust indentures or charged by any owners association. The cost of any Operating Expenses that are capital in nature that are expected to reduce the normal operating costs/expenses (including all utility costs) to the Property shall be amortized over the useful life of the improvement (as reasonably determined by Landlord), and only the amortized portion shall be included in Operating Expenses. Operating Expenses shall not include costs for (i) capital improvements made to the Building other than (1) capital improvements described hereinabove in the preceding sentence, (2) items which are generally considered maintenance and repair items, such as painting of common areas, replacement of carpet in the elevator lobbies, and similar items and (3) capital improvements made due to changes in, new interpretations of, or newly enacted (after the Commencement Date) laws, ordinances or regulations applicable to the Property; (ii) repair, replacement and general maintenance paid by proceeds of insurance or by Tenant or other third parties; (iii) interest, amortization or other payments on loans to Landlord; (iv) depreciation; (v) leasing commissions; (vi) legal expenses for services, other than those that

# Property Level Adjustments

**Scrub the GL! - Adjustments made to year-end numbers will become the basis for the recovery for every single tenant**

**Common adjustments made during the property level adjustment process:**

- Non-recoverable expenses
- Tenant specific expenses
- Expenses paid for prior year
- Real Estate Taxes
  - Most property taxes are paid on a fiscal year basis, an adjustment is sometimes needed to account for the right reconciliation period

**Relevant Accounting Reports:**

- Trial Balance
- Income Statement
- General Ledger
- Previous year reconciliation property adjustments

# Property Level Adjustments: Tenant Specific

Billbacks for operating expenses such as excess electric, overtime HVAC, tenant specific repairs, etc. must be deducted from recoverable operating expenses.

Utilities are typically the most common type of billback :

(a) Landlord shall provide electricity to the Premises for building standard lighting during normal business hours. In addition to such lighting, Landlord shall provide service of electricity through floor and wall outlets, for a reasonable amount of normal office equipment, during normal business hours. If Tenant installs lighting in excess of building standards or if the total consumption of electricity through floor and wall outlets for the Premises is in excess of that which is necessary to operate normal office equipment, Tenant shall pay for such excess usage, as Additional Rent, at a rate of consumption to be determined by Landlord's independent consulting engineer or by a submeter to be furnished, installed and maintained at Tenant's expense.

# Property Level Adjustments

**Worksheet #2 – For a 2019 reconciliation, fill in the adjustments table using the GL excerpts below and calculate the adjusted total**

**Worksheet #3 – What if these adjustments were not made for the 2019 CAM Reconciliations?**

# Property Level Adjustments

## Worksheet #2 – Answer

GL	2019 Year End Total	Year-End Adjustments	Adjusted Total	Notes
5161 Trash Removal	\$ 5,000.00	\$ 181.56	\$ 5,181.56	December 2019 Trash removal charge paid in January 2020
5217 Snow Removal	\$ 32,000.00	\$ 4,636.81	\$ 36,636.81	December 2019 snow removal charges paid in January 2020
5224 Interior Plants	\$ 1,000.00	\$ -	\$ 1,000.00	

## Worksheet #3 – Answer

The 2019 operating expenses are understated by \$4.8k for the 2019 expenses paid in 2020

## Sample Property Level Adjustment:

GL Description	Year-End Total	Prior Year Expenses	Year-End Adj	Adjusted Total	NOTES
Maintenance Payroll	\$ 77,287.19	\$ (900.00)		\$ 76,387.19	2021 engineering bonus paid in 2022; adjusted out of 2022 recovery
Maintenance Payroll - Overtime	\$ 378.03		\$ 502.00	\$ 880.03	accrual for OT over year-end holidays
R&M - Electrical - Bulbs & Ballasts	\$ 1,602.76			\$ 1,602.76	
R&M - Electrical	\$ 1,476.73		\$ (88.00)	\$ 1,388.73	Adjustment for billback of tenant specialty bulbs
R&M - Elevator - Contract Service	\$ 8,093.15			\$ 8,093.15	
R&M - Elevator	\$ 4,385.81			\$ 4,385.81	
R&M - HVAC - Contract	\$ 1,770.00			\$ 1,770.00	
R&M - HVAC - R&M	\$ 17,408.22			\$ 17,408.22	
Landscape - Contract Service	\$ 26,164.60		\$ (1,400.00)	\$ 24,764.60	Reclass janitorial expense to proper GL
Cleaning - Contract Service	\$ 84,577.39		\$ 1,400.00	\$ 85,977.39	
Cleaning - Trash Removal	\$ 9,332.58			\$ 9,332.58	
Security - Contract	\$ 19,440.80			\$ 19,440.80	
Fire Safety - Contract	\$ 5,852.69			\$ 5,852.69	
Electric	\$ 147,494.64		\$ (12,500.00)	\$ 134,994.64	Adjustment for billback of tenant excess electric
Water	\$ 4,585.79		\$ (725.00)	\$ 3,860.79	Adjustment for billback of overtime HVAC water consumption
Water/Sewer	\$ 10,247.96			\$ 10,247.96	
Management Fees	\$ 43,471.25			\$ 43,471.25	
Insurance - Property	\$ 70,003.67			\$ 70,003.67	
Real Estate Tax	\$ 331,202.24	\$(150,758.00)	\$ 152,135.00	\$ 332,579.24	Property taxes paid on fiscal tax year; leases reconciled on calendar year

# Tenant Level Adjustments

Year-end adjusted totals become the starting point for all pool level or tenant level adjustments. **Tenant level adjustments must be made based on the terms set out in the lease.**

## **Common tenant level adjustments:**

- Recovery with base year
- Gross Up Adjustments
- Calculating caps
- Any expense noted in the tenant lease as non-recoverable

# Tenant Level Adjustments

## Gross-Up adjustments

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### Fixed vs. Variable

Only those expenses that fluctuate based on occupancy may be grossed-up. Often, leases dictate what is a variable expense. If a lease is silent, use reasonable judgment.

Variable expenses often include:

- ◆ Janitorial and Cleaning Supplies
- ◆ Trash Removal
- ◆ Utilities
- ◆ Management Fees

### Generally Accepted Gross-Up Calculation based on Occupancy %

$$\frac{\text{Total Expense} \times \text{Gross-Up \%}}{\text{Average Occupancy \%}}$$

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# Tenant Level Adjustments

## Gross-Up adjustments

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### Worksheet #4 – Gross Up Calculation



#### Your turn...

Using the variable expenses from the previous page and the same method for grossing up, what is the dollar increase in operating expenses using a **95% gross-up** for a building with an **average occupancy rate of 82%**?

Cleaning Supplies	7,000.00
Contract Service - Cleaning	18,000.00
Trash Removal	12,000.00
Management Fee	56,000.00
	<hr/>
\$	93,000.00

$$\boxed{\phantom{000000}} \times \boxed{\phantom{00}} / \boxed{\phantom{000000}} = \boxed{\phantom{000000}}$$

Original

Gross Up Adj

---

# Tenant Level Adjustments

## Gross-Up adjustments

---

### Worksheet #4 – Gross up calculation



#### Your turn...

Using the variable expenses from the previous page and the same method for grossing up, what is the dollar increase in operating expenses using a **95% gross-up** for a building with an **average occupancy rate of 82%**?

Cleaning Supplies	7,000.00
Contract Service - Cleaning	18,000.00
Trash Removal	12,000.00
Management Fee	56,000.00
	<hr/>
\$	93,000.00

$$93,000.00 \times 0.95 / 0.8200 = 107,743.90$$

Original	93,000.00
Gross Up Adj	\$ 14,743.90

---

## “Base Year” Concept

**SECTION 5.03. EXCESS OPERATING COST.** Tenant shall pay Landlord each calendar year Tenant's Proportionate Share of the amount by which Operating Cost for that calendar year exceeds Basic Operating Cost (“Excess Operating Cost”). “Operating Cost” shall comprise all costs and expenses (except specific costs separately billed to, and paid or reimbursed by, specific tenants) of every kind and nature Landlord shall pay or become obligated to pay because of or in connection with ownership and operation of the Land (as hereinafter defined) and the office portion of the Building, as determined on an accrual basis and in accordance with generally accepted accounting principles consistently applied, including, but not limited to, the following:

### Typical Recovery Calculation for Office

Year-end Operating Expenses
- LESS: Base Year Amount
<hr/>
Subtotal
x Tenant's Prorata Share
<hr/>
Reconciliation Amount Due
- LESS: Estimates Billed
<hr/> <hr/>
Amount Due/(Credit)

\*a base year is like a credit\*

# Tenant Level Adjustments

## Recovery with Base Year

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Let's do some math...

Tenant's Prorata Share	30.00%
Estimates Billed 2022	\$ 90,000.00
2019 Base Year	\$ 665,000.00

2022 Total OpEx	\$ 998,000.00
LESS: 2019 Base Year	- 665,000.00
	<u>\$ 333,000.00</u>
Tenant's Prorata Share	x 30.00%
Subtotal	<u>\$ 99,900.00</u>
LESS: Estimates Billed 2022	- 90,000.00
<b>Amount Due/(Credit)</b>	<b><u>\$ 9,900.00</u></b>

# Tenant Level Adjustments

## Recovery with Base Year

### Worksheet #5 – Calculate the recovery with a base year



#### Your turn...

Tenant's Prorata Share	62.00%
2023 Estimates Billed	\$ 150,000.00
2019 Base Year	\$ 728,000.00

2023 Total OpEx	\$	998,000.00
LESS: 2019 Base Year	-	
Tenant's Prorata Share	X	
Subtotal		
LESS: 2023 Estimates Billed	-	
<b>Amount Due/(Credit)</b>		

# Tenant Level Adjustments

## Recovery with Base Year

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### Worksheet #5 – Calculate the recovery with a base year



#### Your turn...

Tenant's Prorata Share	62.00%
2023 Estimates Billed	\$ 150,000.00
2019 Base Year	\$ 728,000.00

2023 Total OpEx	\$	998,000.00
LESS: 2019 Base Year	-	728,000.00
	\$	270,000.00
Tenant's Prorata Share	x	62.00%
Subtotal	\$	167,400.00
LESS: 2023 Estimates Billed	-	150,000.00
<b>Amount Due/(Credit)</b>	<b>\$</b>	<b>17,400.00</b>

# Putting It All Together

## Checklist for Performing Recoveries

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1. Abstract lease recovery language
  2. Complete year end property level operating expense adjustments
  3. Determine and calculate tenant level adjustments are required
  4. Calculate Tenant's prorata share
  5. Bill the Tenant
-

# Putting It All Together

## Answer Review

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### Step 3: Tenant Level Adjustments

95% Gross Up :

#### Cleaning

91,378.85

x 95.00%

÷ 75.89%

---

114,389.13

(91,378.85)

---

23,010.28

#### Mgmt Fees

31,499.44

x 95.00%

÷ 75.89%

---

39,431.37

(31,499.44)

---

7,931.93

#### Electric

139,339.52

x 95.00%

÷ 75.89%

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174,426.86

(139,339.52)

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35,087.34

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# Putting It All Together

## Answer Review

### Step 3: Tenant Level Adjustments

95% Gross Up :

Cleaning - Contract Service	\$ 91,378.85		\$ 91,378.85	\$ 23,010.28	\$ 114,389.13
Cleaning - Day Porter Contract	\$ 11,496.00		\$ 11,496.00		\$ 11,496.00
Cleaning - Carpets/Mats	\$ 2,919.93		\$ 2,919.93		\$ 2,919.93
Cleaning - Windows	\$ 8,279.00		\$ 8,279.00		\$ 8,279.00
Cleaning - Restroom Supplies	\$ 10,025.19		\$ 10,025.19		\$ 10,025.19
Cleaning - Trash Removal	\$ 3,513.57		\$ 3,513.57		\$ 3,513.57
Security & Safety Expense	\$ 32,260.43		\$ 32,260.43		\$ 32,260.43
Security & Safety - Equipment	\$ 1,260.01		\$ 1,260.01		\$ 1,260.01
Security - Contract	\$ 106,357.36		\$ 106,357.36		\$ 106,357.36
Fire Safety - Contract	\$ 2,385.00		\$ 2,385.00		\$ 2,385.00
Electric	\$ 160,060.09	\$ (20,720.57)	\$ 139,339.52	\$ 35,087.34	\$ 174,426.86
Gas	\$ 18,357.08		\$ 18,357.08		\$ 18,357.08
Water	\$ 18,989.22		\$ 18,989.22		\$ 18,989.22
Sewer	\$ 6,348.95		\$ 6,348.95		\$ 6,348.95
R&M - Sweeping	\$ 7,692.05		\$ 7,692.05		\$ 7,692.05
Management Fees	\$ 31,499.44		\$ 31,499.44	\$ 7,931.93	\$ 39,431.37
General & Administrative Expense	\$ 5,602.24		\$ 5,602.24		\$ 5,602.24
Administrative Payroll	\$ 63,999.26		\$ 63,999.26		\$ 63,999.26
Admin - Bank Charges	\$ 1,793.91		\$ 1,793.91		\$ 1,793.91
Admin - Office Supplies	\$ 406.23		\$ 406.23		\$ 406.23
Admin - Telephone	\$ 1,016.80		\$ 1,016.80		\$ 1,016.80
Insurance	\$ 11,178.60		\$ 11,178.60		\$ 11,178.60
Real Estate Tax	\$ 93,698.10		\$ 93,698.10		\$ 93,698.10
	\$ 813,139.79	\$ (20,720.57)	\$ 792,419.22	\$ 66,029.55	\$ 858,448.77

# Putting It All Together

## Answer Review

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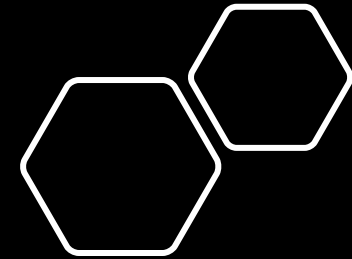
### Step 4: Putting it all together

2023 Total Recoverable	858,448.77
2022 Base Year	(720,000.00)
	138,448.77
Tenant's Prorata Share	1.83%
	2,533.61
2023 Estimates Billed	(999.00)
Amount Due/Credit	<b>1,534.61</b>

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**EXPENSE SUMMARY:**

	<b><u>2015</u></b>
	<b><u>EXPENSE</u></b>
Cleaning	\$ 980,737.90
Repairs & Maintenance	\$ 1,984,345.49
Security & Safety	\$ 916,553.16
Utilities	\$ 1,457,086.81
Administrative	\$ 678,936.49
Insurance	\$ 170,967.00
Total Operating Expenses:	<u>\$ 6,188,626.85</u>
Real Estate Tax	<u>\$ 2,143,535.74</u>
Total Op Ex and Taxes:	\$ 8,332,162.59
Less 2010 Base Year	<u>\$ (6,188,626.85)</u>
	\$ 2,143,535.74
Tenant's % Share:	X <u>28.50%</u>
Tenant's Share:	\$ 610,907.69
% Occupied:	X <u>100.00%</u>
Adjusted Share:	\$ 5,125.35
Less Amount Billed:	<u>(5,678.04)</u>
Amount Due (Refund Due):	(\$552.69)



Sample of  
Tenant  
Reconciliation  
Letter

# Summary

## Common mistakes

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- 1 Incorrectly applying the cap
  - 2 Not prorating the base year or expense stop when using partial year expenses
  - 3 Basic Microsoft Excel function and formula errors
  - 4 Crediting tenants for expenses that fall below the base year
  - 5 Incorrect gross-up calculations; failing to gross up base year
  - 6 Reconciling for what the tenant *paid* , not for what the tenant *was billed*
  - 7 Including unrecoverable expenses in the recovery such as billbacks
  - 8 Failing to acknowledge what portion of utilities/expenses are fixed when grossing up
  - 9 Not fully or incorrectly closing out year-end financials
  - 10 Not reconciling at all
-

# THANK YOU!

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