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IT IS CAM AUDIT SEASON!

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CAM or common area maintenance charges are an important element of the rent roll. As the name signifies, CAM charges refer to the expenses incurred by the Landlord on account of maintaining the common areas of the leased premises. Since these areas are common and shared by all tenants, landlords usually split the common area expenses amongst all the tenants. Sounds simple, doesn't it?

However, CAM is one of the most complex elements of the rent roll and it is extremely important from a tenant's perspective to get it right. This is because there are various factors influencing the CAM charges right from how it is calculated to what elements are included therein. It is not uncommon for Landlords to overcharge their tenants when it comes to CAM expenses because of oversight or confusion regarding how the CAM expenses are to be calculated.

How are CAM charges calculated?

CAM charges are usually calculated on a pro-rata basis, meaning, the total CAM expenditure is divided amongst the tenants in the building based on the ratio of their leased space. For example, a tenant who has leased 2000 square feet in a building will pay a higher CAM amount than one who has leased 1000 square feet of space in the same building. Another factor that can affect the CAM charges' calculation is the occupancy rate. Since the entire CAM expense is shared on a pro-rata basis among tenants, a higher occupancy rate translates to lesser CAM charges per tenant, as there are more tenants sharing the load.

What elements constitute CAM charges?

Usually, CAM charges include the costs associated with maintaining the common areas and facilities of the leased premises. This includes lobby areas, stairwells, elevators, parking lots (in some cases), etc., Generally, CAM charges don't include any capital expenditure incurred with respect to the common areas, though they may be amortized by the landlord over a period of time.

Are CAM charges the same as operating expenses?

Though sometimes used interchangeably, CAM charges are not the same as operating expenses. The term, operating expense is much more vast and covers additional expense items apart from those included in under the CAM charges head. Examples include Taxes and insurance.

Are you being overcharged?

At the end of the day, the answers to all the questions regarding CAM lies in your lease. Your lease specifies everything you need to know about your CAM expense calculations such as,

- What constitutes CAM in your case?
- How are the CAM charges calculated?
- Are there any specific exclusions?

What are some areas to check during your CAM audit?

- New tenants moving into the property mid-lease year or existing tenants expanding their area
  - Generally, CAM expenses are shared on a pro-rata basis among all the tenants in the premises. This means, if you move into an empty building or a building with fewer tenants, the CAM charges will be higher. At the same time, if new tenants move into the premises, the pro-rata share per tenant will decrease as the total CAM expenses will now be shared by all the tenants, including the new ones. So, one of the areas to consider when auditing your CAM expenses is, if there were any new tenant move-ins during the lease year. Along the same lines are expansions. Sometimes, an existing tenant may lease out more area in the premises which will again affect the CAM share of other tenants by lowering their CAM expense.

- Amortizations
  - Sometimes, leases allow landlords to charge tenants for certain capital expenditures that they incur. Usually, such expenses are a result of specific capital improvements undertaken by Landlord for the tenant(s). The Landlord may then amortize the amount over the entire lease year. As a tenant, you may want to confirm if the amortization calculations are accurate. Similarly, as in the case of CAM, if the capital improvements pertain to a common area or all leased locations within the premises, then the amortization amount may also differ once the occupancy in the leased premises increases.

- Expense caps
  - Another thing to consider is the limit on expenditures, commonly referred to as expense caps. Check your lease agreement to understand the kind of expense cap it enforces. When you have an expense cap clause, it specifies the percentage by which the Landlord can hike the CAM charges every year. Make sure the calculations presented by your landlord are in line with the expense caps your lease specifies.

- Exclusions
  - Last, but not least, check for any exclusions that may have been wrongly charged to your account. Leases often explicitly state certain expenses that the landlord cannot charge the tenants for. Check every item in your CAM/Operating expense header to ensure that they are not a part of your exclusion clause.

To stay on top of your leases from the CAM charges perspective, you need to do two things. The first is obviously getting your leases abstracted. A lease abstract will provide you quick access to the CAM charges data that you need and, the second step is to get a CAM audit done annually.

Why outsource your CAM audit and reconciliation tasks?

- **It keeps your costs low:** This is one of the major benefits of outsourcing your CAM audit and reconciliation. You save on HR and training costs that you would incur if you hired someone for lease accounting and lease administration in-house.

- **Expertise:** When you outsource your CAM reconciliation to a lease administration company, you benefit from their expertise. A lease administration company has vast experience across multiple industry types which you can leverage. Your in-house lease administrator may not have that kind of exposure and expertise.

- **Easier negotiations:** If there are any discrepancies in your CAM calculations, the lease administration company to which you have outsourced the CAM reconciliation work will be the one getting in touch with your landlord. In general, this scenario is better accepted by Landlords, as the lease administration company comes across as a more reliable, third-party than your own internal team when reaching out to your Landlord. Plus, lease administration companies specialize in this kind of communication and usually have a process or protocol which is generally well-received by the other party.

If your business entity would like to discuss how Mohr Partners can help you complete your CAM reconciliations please feel free to reach out to Sohail Hamirani at sohail.hamirani@mohrpartners.com or Shayla Kiser at shayla.kiser@mohrpartners.com.

About Mohr Partners, Inc. Mohr Partners, Inc. is a global corporate real estate advisor, providing corporate tenants with an integrated set of portfolio services including strategic planning, business intelligence, lease administration/accounting & FASB ASC 842 compliance, research and site selection, labor analytics, project and construction management, comprehensive demographics analysis, economic incentives negotiations and transaction management. Since 1986, Mohr has been managing real estate portfolios for corporations, and each year completes transactions for its clients in all 50 U.S. states, all provinces of Canada and locations around the world. Mohr seamlessly provides corporate real estate services globally through its strategic alliance partners in Canada, Mexico/Latin America, EMEA and Asia Pacific. For more information on Mohr, please visit www.mohrpartners.com.