



Understanding the Financial Commitments of the Lease

by: Jon D. Albright, CCIM

Most Tenants understand the length of their lease, the monthly rental, costs for tenant improvements and rental increases, but there is confusion in many instances about other financial commitments that they may be responsible for.

The majority of this confusion lies in how the operating expenses of a particular project are handled and most importantly who pays for these expenses. Every building has costs that comprise operating expenses. Typical operating expenses may include: taxes, utilities, insurance, security, maintenance, property management, and administrative costs.

It is important to fully and accurately understand how these expenses are allocated and who is responsible for payment. Some leases have a "Base Year" provision which means only expenses that escalate over and above expenses incurred during the Base Year are passed on to the Tenant for payment (in most instances the year in which the lease commences is the Base Year). Normally a Tenant would pay a pro rata share of the expenses based on their percentage of occupancy in the building or project. Some leases are "NNN" which simply means that the Tenant is responsible for its pro rata share of all expenses beginning the day that they occupy the space. These will be additional expenses that are charged and billed each month. And in some rare instances a Tenant may have a

"Gross" lease which means that the costs are fixed and will not increase during the term of the lease.

It is a good practice to ask the Owner or Landlord for a couple years of Operating Expense History. This is a way of determining which expenses are increasing and how often. This can help for budgeting purposes and may help you decide the better option between competing properties. Newer properties may have Budgeted Expenses which can be compared to like properties to determine if they are realistic or not. Newer properties usually have expenses which are more volatile.

My advice is to make sure you understand what you and your practice is financially committed to and if uncertain engage a professional to explain and/or negotiate the best terms on your behalf.

Jon D. Albright, CCIM

Investec Realty Services

6555 Quince Road, Ste. 111 • Memphis, TN 38119

901-758-2424 phone • jon@investectn.com



Dr. Smith Receives NMA Distinguished Service Award.

Robert J. Smith, M.D. received the Distinguished Service Award at the National Medical Association's (NMA) 2008 National Convention and Scientific Assembly. The NMA's 106th annual

convention was held this past July in Atlanta, GA. Dr. Smith, a general surgeon was the first African-American graduate of both the University of Missouri and the Missouri School of Medicine. Dr. Smith is the chairman of the Memorial Lecture for the Bluff City Medical Society. He is a former chief of surgery for Methodist Hospital South and former associate professor at Meharry Medical College.

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Dianne J. Berry, CPA, MBA, CFP

1633 Kimbrough Park Place

Office: 901-757-4447

Germantown, Tennessee 38138

Cell: 901-230-4505

www.berryfs.com

Fax: 901-531-8241

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