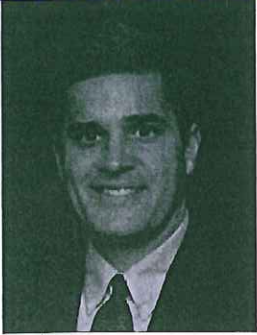


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REAL ESTATE UPDATE



Evaluating Operating Expenses

by: Jon D. Albright, CCIM

An area that all practices and clinics should closely monitor is the real estate operating expenses. These are important to watch in both owned and operated facilities, as well as leased space. In far too many instances, these real costs are not properly budgeted or reviewed in a manner that is consistent with their overall importance.

Typically, operating costs will include taxes, utilities, insurance, maintenance, landscaping, repairs, property management fees, and other like expenses. In some instances, these costs alone can account for an additional \$9-11.00 per square foot. Depending upon the type of lease you have signed, your firm can be committed to thousands of additional dollars you may not have been budgeted for during the year. Often times, these expenses are billed on an annual basis with the entire amount being due once received.

In certain situations, you may be able to negotiate for

some type of reasonable cap on some of the expenses.

Regardless, it is important to understand what you are responsible for and to have some type of expense history for existing properties and a realistic budget for new properties. It is important to ask for a detailed accounting of all expenses, which most landlords will readily provide or grant access for you to review these records at their offices.

It is important to clearly understand the provisions within your lease that pertain to this area, because they will dictate whether these expenses are handled in a Base Year, Gross, or NNN fashion and most importantly who will be responsible for payment. Your accountant or real estate professional may be able to assist as well.

Remember to plan and review your annual operating expense statements very carefully. Most landlords are very honest about these costs, but mistakes can occur. As always if you are uncertain seek the advice and counsel of a professional.

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