



nerej

New solutions boost expense recovery calculations Part 1

April 30, 2008 - Owners Developers & Managers

Commercial and retail property owners and managers collect estimated costs from tenants and assess a percentage of the hard costs for each tenant. Sounds simple, but it's not. Complications abound, including varying numerators and denominators, base years, caps, gross-ups, management fees, and other factors. And since the calculations differ for each tenant, managers face the daunting job of reconciling all variables and compiling an accurate accounting of what their tenants owe.

For years, recovery fee calculations were mostly performed with spreadsheets. Unfortunately, those programs were prone to errors that accumulated as the spreadsheet expanded in scope and complexity, often with disastrous results. One study in the 1980s found that a third of all spreadsheets had errors; another audit found 128 errors covering 120 line items in four spreadsheet models. A recent article in National Real Estate Investor recounted the story of an inaccurate spreadsheet entry that caused incorrect prices to be posted for the sale of 1,900 abandoned lots in Florida in 2005.

So spreadsheet calculations were potential recipes for disaster, but what choice was there? When these studies were conducted, no scalable software management solution existed to handle the commercial and retail industry participants' disparate and complex needs.

New software integrates, consolidates

Fortunately, that deficit has closed, because software serving the commercial and retail real estate markets has achieved high levels of maturity and integration. Reporting, accounting, and other functions once deemed too complicated for a single system can be consolidated within centralized, browser-based systems that are accessible to multiple remote users. From recovery calculations to percentage rents, these systems make commercial lease negotiation and execution easier, more efficient and cohesive, and more accurate.

The most advanced property management and accounting systems are completely integrated and equipped with extremely flexible lease management functionalities. They automate lease charges, recoveries of common-area maintenance (CAM), percentage rents, critical dates, and other factors, with more detail, greater accuracy, and a streamlined billing process.

As an example, consider the task of calculating recoveries of CAM expenses in a retail center, a complex and difficult calculation matrix. Each tenant usually negotiates a unique deal with the landlord, making a uniform calculation impossible. Furthermore, high-visibility anchor tenants that attract consumers to the retail center often secure special dispensations from the landlord, adding

complexity to these calculations.

In past eras property management software providers found it difficult to turn such amorphous and non-standard agreements into the on/off, right/wrong language that legacy computer software systems required to make the right calculations. As a result of this complexity, many had to hire third-party consultants to calculate tenant recoveries.

Part two will appear in the June 6th edition of the New England Real Estate Journal in the Owners Developers and Managers section.

Catherine Malear is special projects manager, Yardi Systems, Santa Barbara, Calif.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540