



Can you negotiate?
Common Area Maintenance (CAM) and Taxes:
What are they?

MARKET UPDATE

Many businesses view common area maintenance and tax charges as a necessary evil when leasing space. Together, CAM and taxes are often referred to as Operating Expenses. In Minnesota, net leases are the standard, and according to most leases the landlord will bill the tenant for their proportionate share of the property's common area maintenance and taxes. For example, if you lease 25,000 square feet in a building that totals 100,000 square feet, your business would pay 25% of the operating expenses of that building. Operating expenses are paid by tenants in addition to the net rent, and are not subject to significant negotiation. Here are common components of CAM:



- HVAC
- Electrical
- Utilities
- Janitorial/cleaning
- Parking lot maintenance
- Roof repairs
- Administration
- Management fees
- Insurance
- Fire/life safety
- Landscaping
- Lawn care
- Snow removal

Let me elaborate on these CAM components. HVAC, electrical, utilities and janitorial services are tenant responsibilities in single-story office/warehouse properties;

within each space the utilities are usually separately metered. However, in general, the property owner is responsible for exterior building lighting, parking areas, servicing and repairing vacant tenant spaces, and maintaining the building. Roof and parking lot repairs are a percentage of the cost to completely replace the item, i.e. if the roof has a 20-year life, and the cost to replace the roof is \$4.00 per square foot (psf), the landlord will charge \$0.20 psf per year as CAM. Administration and management fees are usually 3-7% of the total gross rent received on the property. Insurance and fire/life safety costs are necessary to maintain a safe building. Landscaping, lawn care and snowplowing are all essential to maintain a professional looking property. Each of the items discussed above are included in your CAM charges.

CAM charges are difficult to negotiate, but there are a few tactics to help ease the sting when unforeseen problems arise. One way to minimize your business's exposure to an unforeseen CAM charge is to neutralize what many tenants consider their greatest leasing risk: the repair and replacement of HVAC units. During lease negotiations, tenants may request that the landlord be responsible for the repair and replacement of the HVAC units throughout the term of the lease; in turn, tenants should expect the net rental rate to increase by approximately \$0.10 psf. Many

landlords are willing to absorb HVAC risks if they receive a greater rental rate. Also, tenant negotiations may include a cap on the management and administration fee; a reasonable cap is 3-5% of the gross rent.

Taxes are determined by the county, and based upon the following: property age, condition, build-out (if a single-story building has excessive office build-out, the building is appraised at a higher value) and vacancy. Therefore, tenants in a brick and glass office/showroom building in Eagan may be faced with a \$3.00 psf property tax cost, whereas tenants in a tilt-up distribution building may only pay \$0.80 psf for taxes. Unless you are a single tenant in a building, you have no recourse for negotiating a lower tax bill.



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My brother continues to amaze me with his technical prowess. Visit the web site, provide me with feedback (positive and/or negative), and I will buy you lunch at a restaurant that does not allow you to order a "SuperSize Value Meal." As always, information on my listings, including floor plans, are available to download in .pdf format.



*"Slump? I ain't in no slump. I just ain't hittin."
"Baseball is 90% mental, the other half is physical."*

Yogi Berra, New York Yankees catcher, 3-time American League MVP



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HIGHLIGHTED PROPERTIES



Larc VII - Sublease

- 15,440 SF available now, divisible
- Docks and drive-ins
- All warehouse, short & long-term deals
- Outside storage



Eagandale Business Campus I-IV

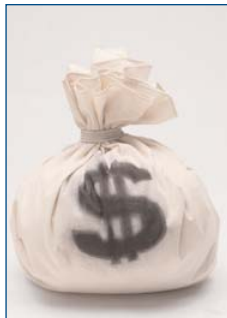
- 2,200 SF to 35,410 SF vacancies
- Loading docks & drive-in doors
- 14' clear height
- Great access from I-494 & I-35E



PENALTY BOX AWARD

Bank Robber Arrested on 'Account' of Stupidity

New York – The winner of the most stupid criminal of the quarter goes to...Jack Schreiner of New York! The 30 year-old pulled a smooth move when he wanted to open a bank account – at the same bank he robbed four days prior. Schreiner reportedly walked away with almost \$8,000 from the Chase Manhattan Bank in New York. When he returned to open the account, one of the clerks recognized him from a surveillance tape and notified security. Since the arrest, police have alerted area residents to “think before you act.”



TED'S ALPINE ESCAPE Ñ GERMANY

The end of the year is generally a slow time in real estate, so over the holidays I decided to go to Europe for the first time to visit a close friend, Dan Bjornlie, who plays professional hockey in Garmisch, Germany. Dan is an Eagan native and is a center for the SC – Riessersee hockey team. I joined Dan's family and we had an amazing trip. I skied the Zugspitze (the highest mountain in Germany) and spent plenty of time sampling the tasty German beer and excellent cuisine. We also spent a day in Innsbruck, Austria and toured King Ludwig's palace. If you ever have a chance to visit Germany, I highly recommend it!

