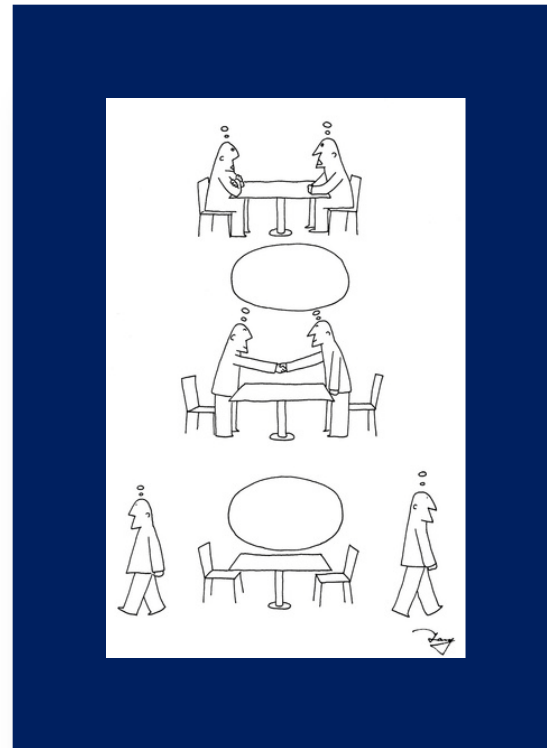


**Law Firm Office Leases:
Ensuring the Benefit of Your Bargain**

May 18, 2011



Presenters

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"I know nothing about the subject,
but I'm happy to give you my expert opinion."



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President
KBA Lease Services & Visual Lease



Meyer Last, Esq., Partner
Fried, Frank, Harris, Shriver &
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Lou Ferro, CPA, Sr. VP
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So, You **Just** Finished the Deal

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"I suppose a fist bump would be more sanitary."

- Leased 50% of the building, base year lease, first year rent abatement
- Gross-up to "full occupancy"
- Successfully reduced management fee rate from 3% to 2%
- Firm expects management fees to rise slowly with rents
- Free rent in base year depresses management fee
- Management fees double immediately after the base year
- Firm is stuck with paying for that increase for every year of the term

Did You Know...

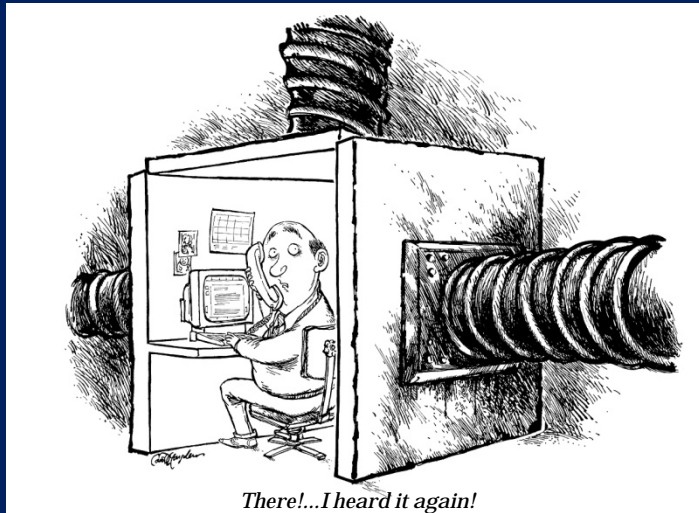
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- Real estate leasing costs second only to personnel
- Up to **70%** of leasing costs can be buried in Operating Expenses
- Most attorneys do not know the financial impact of their clauses
- Allowing audit restrictions can give landlord a blank check

Would You **Believe** that Landlords...

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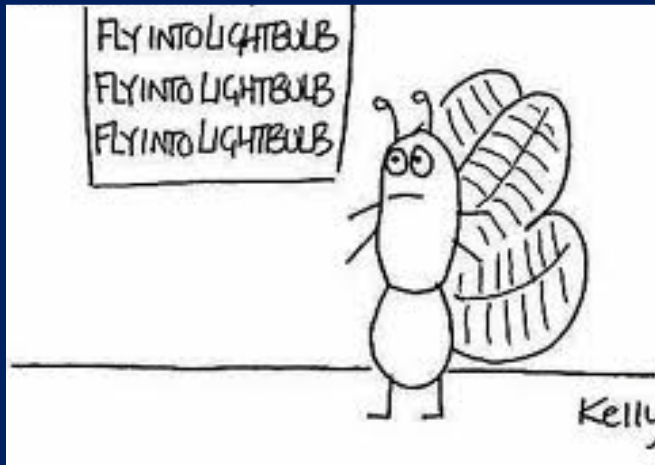


There!...I heard it again!

- Include janitorial preparation areas and engineering office rents in CAM
- Charge multiple tenants for the same overtime HVAC usage
- Ignore negotiated sundry service rates
- Double-charge for freight elevators
- Include expenses for public parking garages in CAM
- Charge for services in **vacant** areas
- Forget to give tenants their Tenant Improvement allowances

Agenda

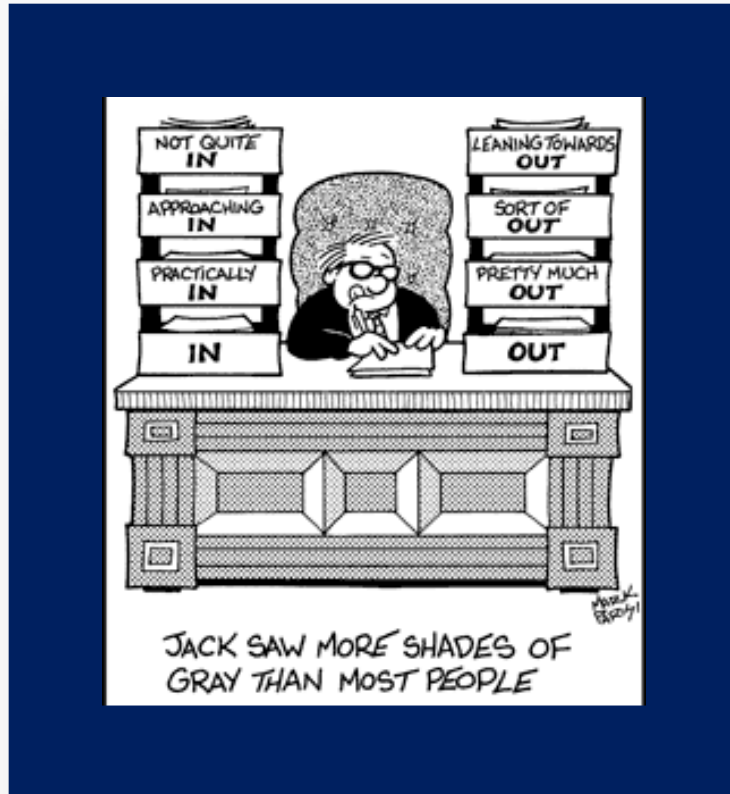
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- What makes law firm leases **different** from other office leases?
- Unique cost drivers
- What most accounting departments don't focus on
- Internal barriers to controlling costs
- Common problems when billing subtenants

Law Firm Leases: **Unique?**

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- Highly negotiated
- No budgetary constraint on negotiations
- Your colleagues' **eyes**
- Closeness to the “client”
- High profile buildings with “special” tenants
- Above-standard services
- Landlord could have a secondary relationship to the firm

Unique Cost Drivers: **Special** Cleaning

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- Rate
- Monitoring usage
- Inclusion in Operating Expenses

Unique Cost Driver: **Late** Hours

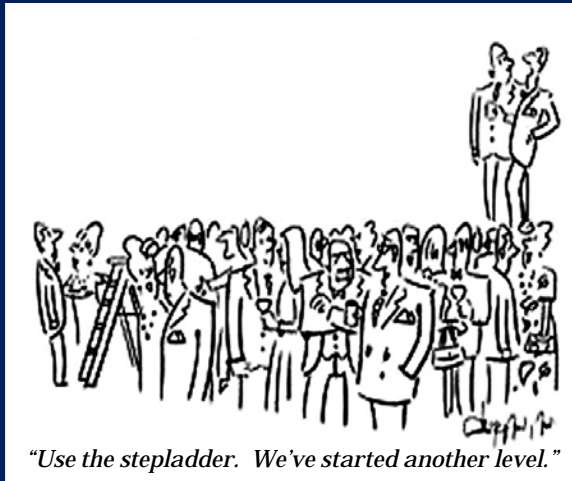
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- **After-Hours** HVAC
 - Rate
 - Measurement
 - Redundancy
- Cleaning
- Security

Unique Cost Driver: **Headcount**

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"Use the stepladder. We've started another level."

- Frequent amendments to lease
 - Multiple base years
 - Improper cut-off dates
- Frequent Moves
 - Freight Elevators
 - ✦ Rate / redundancy
- Vacant areas
 - Gross ups
- Subleases

Unique Cost Driver: Extra Services

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"It also doubles as a hotplate!"

- **Cafeterias**
 - Amenity or profit center?
 - Special catering
- **Parking**
 - Amenity? Operating costs? Taxes? Insurance?
- **Security**
 - Special security direct costs vs. CAM
 - Security for other high-profile tenants

What **Most** Accounting Departments Miss

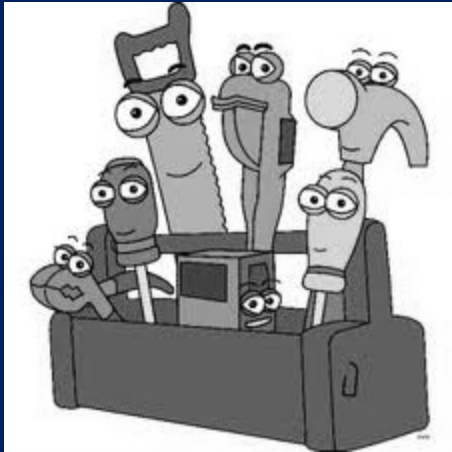
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- Operating Expenses
- Real Estate Taxes
- Utilities

Operating Expenses

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- Gross-ups
- **“Capital”** expenditures
- Tenant chargebacks
- Management fees / admin costs
- Related party transactions
- LEED certification costs
- Audit rights

Real Estate Taxes

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- Tax abatements
- Special purpose taxes
- PILOT programs
- Tax certiorari rights
- Tax **gross-ups**
- Tax allocations

Utilities

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- Method of measurement of usage
 - Survey / submeter / direct meter / ERIF
- Negotiation and enforcement of applicable rates
- Separation of common **vs.** tenant costs
- Deduction of tenant costs
- Utility gross-ups

Internal Barriers

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I AM A VICTIM OF
MY OWN ADMINISTRATION

- Disengagement from Original Negotiators
- Accounting Focus
- Landlord as a Client

Subtenants

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- Law firms are not used to being landlords
 - Fail to bill **everything** due
 - Do not enforce rights
- Subleases are subject to the complexity of overleases

Conclusion

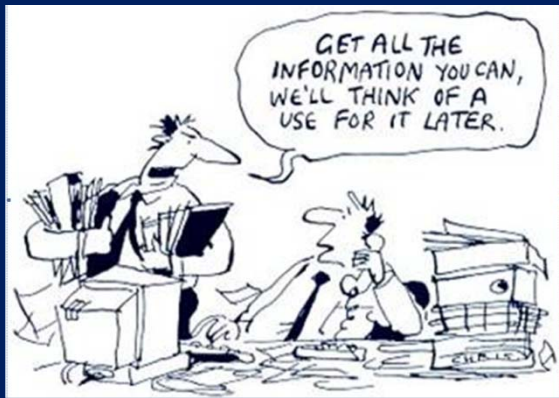
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- Understand financial consequences as you negotiate
- **Stay involved** after the lease is signed
- Have detailed audits performed periodically
- Cycle back what you learn into new transactions

Q & A

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- Please submit any additional questions.
- Unanswered questions will receive written responses.

Thank You

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