



**PREPARE FOR 2020  
WORKPLACE CHANGES  
BY CONDUCTING A 2019  
LEASE AUDIT NOW**

When you enter unfamiliar territory, you need a map to determine how you got there and where you're going. Commercial tenants and landlords face uncertainty along the winding road ahead, so tenants need more clarity about their leases to help navigate the way forward. A building's standard operations will be different in 2020 than ever before, and those operations will continue to change in unforeseen ways because of the COVID-19 outbreak and resulting changes in the workplace. Conducting a 2019 lease audit now is a key step for tenants to measure the future financial and operational impacts of those changes. Taking immediate action helps prepare for what lies ahead, and it could yield significant savings by recovering past overpayments and preventing future ones.

Transparency is mutually beneficial for landlords and tenants, and a 2019 lease audit will help determine the fair pass-through of new costs for 2020 and beyond. Tenants must grasp the pivotal role that a lease audit can play, as well as the expected operational changes that will be needed and how landlords may account for those changes in operating expenses.



## CONDUCT YOUR 2019 LEASE AUDIT NOW

Tenants need a full understanding of their building's pre-COVID-19 operating expenses, and a 2019 lease audit helps establish a clear baseline for comparison going forward. This audit is considered a "best practice" (as well providing other benefits) by examining a commercial property's operations, operating expenses and the related billing for those expenses, in conjunction with reviewing the terms of the lease agreement. It's important to examine the lease's specific provisions for pass-through and escalations as well.

Because of the many factors involved, lease auditing is especially critical for commercial tenants with leases at multiple properties, particularly those spread across various cities and states. A knowledgeable consultant can utilize benchmarks and market data to help determine how the lease terms compare to other standard leases in a given geographic market.

Commercial landlords potentially face considerable costs while adapting their building and procedures to newly established guidelines and best practices for the workplace as a result of this public health crisis. These are necessary changes, but they must be tracked and billed appropriately. Having a picture of standard operations in 2019 gives clarity about the impact of 2020 changes, and it also helps landlords identify certain nonrecurring COVID-19-related expenses.

Expenses will typically include standard repairs, maintenance and operating costs, but can also allow for certain capital improvements. Ensuring the proper treatment of these costs requires distinguishing capital improvements from actual operating expenses, especially when there are substantial changes from one year of a lease to the next. A lease audit illuminates those expenses and can potentially result in significant cost savings.

## MANY CHANGES AHEAD IN 2020

Landlords will need to make substantial physical and operational changes to their buildings to accommodate tenants' new needs and new public health requirements. These changes may include, for example, installing equipment for hands-free doors and no-touch elevators, plus upgrading HVAC and air filtration. Many landlords will also expand operating hours to help stagger building traffic, which will increase the staffing needs for building management.

Cleaning will need to be conducted more frequently and with enhanced sanitation as well. Landlords may choose to provide this for tenants as a pass-through cost, or they could bill it directly to tenants under a supplemental contract. And questions abound about these new costs. For example, if a tenant has temporarily shifted staff to remote work, will they be compelled to bear an increased cost of cleaning their mostly unoccupied office space? Depending on the lease, it may be possible to negotiate savings for this and other expenses.

For a portion of 2020, common building services (e.g., janitorial, security) have been reduced during forced shutdowns in many areas, which will require accounting and gross-up adjustments. Evaluation of tenant space will be needed to determine the amount of square footage that is leased but either unoccupied, partially occupied or substantially occupied. Tenants should evaluate whether they could be eligible for base rent credits for services not provided.

Moreover, while installing a suite of amenities had become a popular trend in commercial office buildings, some of those amenities may no longer be usable or desirable and could require costly redesign. For example, on-site fitness centers may prove to be an unsafe environment, conference facilities may be limited in capacity, and eat-in dining facilities may be shuttered. Collaborative spaces for congregating will need to be reassessed to confirm how to use them safely. Such changes are vital to facilitate a safe return to work for tenants, but landlords must bill the associated costs appropriately.

Some organizations may also want to proactively consider changes to their leased square footage. Companies will be reevaluating their required footprint as more workers embrace working remotely or relocate to satellite offices. However, reductions in headcount within the office space will be balanced in part by the need to have more space per employee, as population density is eased to achieve social distancing. Tenants should evaluate if their lease gives them the right to sublease or reduce their leased space and what the requirements are for gaining approval. A portfolio strategy consultant can help address these considerations about renegotiating leases or negotiating reduced leasing obligations.

## WHO PAYS FOR THESE CHANGES AND HOW?

Although COVID-19 has raised unpredictable challenges for commercial real estate, there is some precedent for how to deal with significant changes, such as those made in response to September 11, 2001, and following Superstorm Sandy in 2012. Many leases address criteria for when capital expenditures can be passed through to a tenant (typically those made to comply with new laws or those that yield cost savings) and provide limitations on how those costs can be passed through (e.g., amortized over the useful life of the asset or savings period, with or without interest).

Tenants will also need to make changes to their own office space, and newer tenants may be able to negotiate a larger tenant improvement allowance to help offset the cost of such changes. In some situations, there is no doubt that landlords and tenants will face unique challenges establishing a fair 2020 base year due to the disruption of normal building operations. If the base year in a full-service gross lease is not calculated accurately, then the tenant's yearly escalations will not be accurate throughout the entire lease term. So, ensuring the base year's accuracy is imperative, even if the anomalies in 2020 make this determination more complex than usual.

Lease auditing is a basic cost-containment strategy, and it can be a key source of savings for tenants at a critical time when reduced economic activity has constrained cash flow. However, if tenants can feel a true sense of partnership in working with their landlord to address their needs, and they have confidence in the transparency of the landlord's billing practices, it will foster trust and can encourage future renewals or increase leasing momentum.

## THE PATH TO THE FUTURE WORKPLACE

A workplace should encourage collaboration and provide a positive employee experience to increase engagement, but organizations need to reimagine this after the experience of adjusting to COVID-19. Determining office headcount and the necessary footprint to accommodate this will introduce completely new considerations for commercial tenants. Conducting a 2019 lease audit helps reduce the uncertainty ahead, and it has compounding benefits over the life of the lease. It's a crucial first step for all tenants to take now as they plot the route to future success.

[Learn more](#) about how lease auditing can help determine a full breakdown of costs and operating expenses.

## CONTACT

### MITCHELL GARTENBERG

Corporate Real Estate Advisory  
Senior Managing Director  
732-734-1024  
mgartenberg@bdo.com

### MICHAEL ZWANG

Corporate Real Estate Advisory  
Managing Director  
732-734-1032  
mzwang@bdo.com

### MICHAEL PAPPAS

Corporate Real Estate Advisory  
National Practice Leader  
212-885-8429  
mpappas@bdo.com

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