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CAM/OE Escalations - What Information Do I Need To Do Them?
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GATHERING THE RIGHT INFORMATION AT THE START IS CRITICAL

So you've been assigned to do the property's CAM/OE Escalations for the just ended calendar year. Some people have all the luck, huh?!

One of the main reasons that CAM/OE Escalations takes so long (simple ones can take as little as a couple of hours, while complex ones can take well over 200 hours regardless of the number of tenants) is the lack of proper data/information to perform the work. Without a thorough checklist of the data/information needed, the computation process is nothing more than hit-and-miss in which the preparer is trying to, but typically flailing at, figuring out and computing the Escalations. And if all of the actually needed data/information isn't available at the beginning of the process, the preparer will be stuck in the evil "start and stop and re-start (and then stop again and re-re-start again …)" cycle. Such a start/stop/re-start process really slows the work down because of the need to spent extra time trying to not only figure out where you had last ended, but also what you were thinking at the time, and what you were actually working on and had (partially?) completed. Easily 25% of the time that most preparers spend doing CAM/OE Escalations for a property is taken up by this seemingly endless start/stop/re-start cycle due to either the lack of all data/information, or to incessant interruptions.

The checklist on the following pages, entitled "Annual CAM/OE Escalations – List of Documentation Needed – generally provides the entire list of documentation a person must have in order to perform a property's CAM/OE Escalations. This list should be printed, and each item should be checked off as it is obtained.

A few words of advice, however, before you begin the annual CAM/OE Escalation calculations:

☐ Don't begin any work on a Comparison Year's CAM/OE Escalations until ALL (this means "ALL", not "most") of the listed data/information has been completely obtained, and thoroughly verified as to its validity and completeness. If something is missing or incomplete, do NOT start the process. It does no good to begin and then have to stop part of the way through it because you don't have the needed information and documentation. Also, don't waste time even trying to do another part of the CAM/OE Escalation until all of the missing pieces arrive; it may only confuse and/or mess up the process. Get it all, then start.

☐ Decide on a period of time you can devote solely to the CAM/OE Escalations – time that you can ensure will not be interrupted by any, except emergency, interruptions. Do NOT attend meetings, take trips, make or accept phone calls, explore the Internet, read or send emails, etc., during this time. Tell all co-workers, including your boss, that you will be doing this work and that to ensure that it is done efficiently, correctly, and in the briefest time frame possible, you must not be interrupted for any non-emergency reason.

☐ Once you start, avoid any temptation to stop, set the work aside, and then come back to do it later. It is imperative that it be done in one continuous and uninterrupted stream of work (most likely over a number of days, however). Interruptions will result not only in a loss of your train of thought, but also in multiple (and sometimes devastating) errors.

☐ When performing the review of the property's General

Ledger, don't assume that the General Ledger has to remain "clean". Write your notes on it, indicate which expense items are not escalatable and have been excluded, annotate the offsetting accruals so that they are easily seen to be cancelled out, etc. These notes will help immensely when your work is being reviewed, as well as when you begin the next year's CAM/OE Escalations – they will help you ensure that you are doing the Escalations "consistently".

☐ Document all assumptions being made at the time they are being made, and document everything. This will make it far easier when answering questions from the property's executive or from a tenant's auditor about what was done.

☐ Assume that each tenant will either ask questions about their CAM/OE Escalation Reconciliation billing or will (gasp!) audit your work. Assuming this up-front should ensure that your work is well documented and that you have well thought-out what should and should not be escalated, etc.

☐ Assemble all produced work in a well-organized notebook that can be easily referred to in the future. Include a copy of the filled in (i.e., checked off) checklist.

☐ Full copies of each tenant lease should remain available to the preparer (possibly separate from the property team's working lease files) in case questions come up either during the production of each year's CAM/OE Escalations or during follow-up questions by reviewers.

☐ Retain ALL notebooks for each year until after the Statute of Limitations runs out, or until complete settlement has been reached for all applicable tenants. Remember also that ALL Base Year data, information, computations, worksheets, invoices, General Ledgers, etc., must be retained for each Base Year Lease tenant until after such tenants' leases expire. Throwing Base Year data/information for any tenant away will open the door to the tenant's auditor "imputing" what was/should have been in the supposed Base Year, a process that may not end up to your advantage.

☐ Transfer full copies of ALL CAM/OE Escalation notebooks to the subsequent buyer of the property so that they can continue the process correctly and be able to answer tenant questions about your earlier work. Remember, if the data/information is NOT transferred, a subsequent buyer may continually try to contact you and/or your company about what was done in your escalations; but if the data/information is fully transferred,

they have all the information they need and will therefore never have to contact you in the future.

Good luck!

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Michael M. McClune, RPA®, FMA®, is the President and Managing Principal of MKC Asset Management, Inc., a Long Beach-based commercial real estate property management firm. With over 25 years in the commercial real estate industry, and also as the former Chairman of the Board of BOMA of Greater Los Angeles, and Board Member of BOMA Orange County, BOMA California, and BOMA International, he has an in-depth knowledge of commercial real estate industry practices. He frequently consults for various well-known landlord and tenant entities, assisting them in property acquisition due diligence, property management, operating expense escalations, lease abstracting, and lease administration.

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Mickey McClune is the President, Broker, and the Managing Principal of MKC Asset Management, Inc., a Long Beach-based commercial real estate property management firm. As President, Broker, and Managing Principal, Mickey is esponsible for all activities of the firm, including new business acquisition, oversight of all property management activities, and the performance of all of the firm's commercial real estate consulting services. He is an experienced commercial real estate property management, asset management, and leasing specialist with an extensive institutional owner and corporate user background.

Mickey began his career in commercial real estate in the early 1980's with the preeminent national real estate firm, LaSalle Partners (now Jones Lang LaSalle), as its General Manager for all of the office and industrial properties that it had acquired in the Los Angeles and Ventura County areas, and as its Asset Manager for various client portfolios in the Western U.S. While at LaSalle, he was recognized for numerous accomplishments both by the company and the commercial real estate industry. In 1993, he left LaSalle to form his own property management company, New America Asset Management Services, where he was the President and the senior partner of this Long Beach-based commercial real estate property management firm. In late 1997, LaSalle acquired NAAMS and its two million square foot management portfolio, and Mickey then served as LaSalle's Regional Vice President for the Southwestern U.S. In 1999, he joined EPS Solutions, a national corporate services consulting firm, as a Director of Real Estate Services. While at EPS Solutions he assisted property owners with their property acquisition due diligences, their properties' annual Operating Expense Escalations, and with the abstracting of their tenant leases, and he assisted tenants by performing over 50 CAM/OE Escalation Audits for them of their landlords' billed rent charges. In 2001, he again formed another commercial real estate property management firm,

MKC Management Services, where he served as CEO and senior partner. Soon thereafter, MKC merged with New York City based Newmark & Company Real Estate and became its California-based Asset Management Group. In mid-2003, Mickey was instrumental in merging Newmark & Company's California-based Asset Management Group's operations into a new start-up entity that then became known as RiverRock Real Estate Group. At RiverRock, Mickey was its Senior Managing Director, where he established all of the firm's property management systems, oversaw selected property management teams, and was responsible for all of the firm's consulting business. In early 2006, Mickey left RiverRock to start MKC Asset Management.

Over the course of his 25+ year career in commercial real estate property management, Mickey has personally managed and leased well over 18 million square feet of commercial office, industrial, and retail space, abstracted over 5,000 leases, performed over 400 annual CAM/OE Escalations for landlords' buildings, saved clients well over $4 million in cash savings, received four (4) "Management Excellence Awards" from LaSalle Partners, was a LaSalle Partners' "Manager of the Year", and was awarded by BOMA of Greater Los Angeles four (4) "Building of the Year Awards" (in "100,000-250,000 SF" and "Over 500,000 SF" categories) and two (2) "Special Achievement Awards" including one for "Overall Design Improvement".

Prior to entering the real estate industry, Mickey was commissioned as an officer in the United States Air Force and spent 11 years in the USAF and private industry with Hughes Aircraft Company specializing in the business management of major aerospace industry programs.

Mickey has a California Real Estate Broker License, and is RPA and FMA certified by the Building Owners and Managers Institute. He is a past Chairman of the Board and past member of the Executive Committee and Board of Directors of BOMA of Greater Los Angeles, has served on BOMA Orange County's and BOMA California's Executive Committees and Boards of Directors, and on BOMA International's Board of Governors and Strategic Planning Task Force. Mickey graduated from the University of Southern California with a Bachelor of Science degree in Civil Engineering and a Master of Business Administration (MBA) degree.