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WHAT IS YOUR TRUE RENTAL COST?

The Hidden Cost of Pass-Throughs

By Bruce L. Richman, CPA and Arthur E. Pape, Esq.

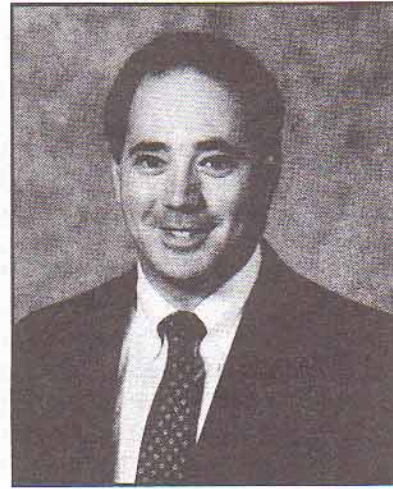
How often have we heard one corporate executive talking to another about the great rental rate he negotiated for his company's new offices? In most cases, the executive was talking only about the stated rental rate and not about the amounts his company is obligated to pay for operating costs and real estate tax pass-throughs. Depending on how a lease is structured, these pass-throughs can represent a significant addition to rental cost. The aggregate cost of operating expenses and real estate taxes in downtown Chicago, for example, can be as high as \$14.00 per rentable square foot and \$10.00 per rentable square foot in suburban Chicago according to Pollina Corporate Real Estate, Inc.



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Arthur E. Pape, with over 20 years experience in real estate law, represents major corporations, commercial developers, and debt and equity investors. He has substantial experience in the area of corporate real estate issues, including lease negotiations. From 1975 to 1981 Mr. Pape was a member of the Law Division of The First National Bank of Chicago. He is a member of the American, Illinois, and Chicago Bar Associations, Lambda Alpha International, an honorary land economics society, and the American College of Real Estate Lawyers. Mr. Pape received his law degree from Harvard University.



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Bruce L. Richman of Coopers & Lybrand's Chicago office is responsible for structuring and financial analysis of real estate projects. He also specializes in analyzing office lease proposals, loan portfolio analysis and real estate workouts. Mr. Richman received his Masters in Accounting from Ohio State University, and a Masters in Taxation from Bentley College. As a Certified Public Accountant he holds the SRI Designation (Specialists in Real Estate Investment). Mr. Richman is a member of the Real Estate Investment Association (REIA), NACORE, and Chicago Board of Realtors.

Editors Note: This is the first in a series examining lease provisions of special concern to corporations during uncertain economic times.