

Alpha Office Escalations: eliminating the escalations headache

BY BRANDI SMITH

Escalations are an important part of commercial leases and are simple in theory, but in practice escalations have the potential to be wildly complicated based on the makeup and occupancy of a given property.

“It’s very much of a niche specialty that requires a lot of experience to get it right,” says Bill Brownfield, Counselor of Real Estate (CRE), Certified Commercial Investment Member (CCIM) and author of *The Escalation Handbook for Office Buildings*.



Bill Brownfield



Larry Mayerhofer

commercial property managers. He and Mayerhofer worked together at Equity Office Properties (EOP), which became the largest REIT in the country, and pooled their respective management and accounting

accounting software isn’t set up to handle the complexities of commercial real estate leases.

“Some of these properties have retail tenants on the first floor and office tenants upstairs. Some have condos in the building too. It gets pretty complicated splitting the expenses between the different lease types and billing them correctly,” he says, noting that ownership changes can result in a number of different lease clauses as well. Expense caps and capital amortizations also complicate things.

While large REITS have in-house specialists or proprietary software to help with their portfolios, many small- to mid-sized property management companies have created in-house spreadsheets to track expenses and do the calculations.

“The problem is that these files can be corrupted with bad formulas or data links. And when a person leaves and someone else takes over, they may not know exactly how it works,” says Mayerhofer. “So there are a lot of risks when using spreadsheets.”

Those risks are eliminated by using AOE. First developed in 1998, the software has been enhanced considerably over time with new features and reports, and is now cloud-based for easier access and automatic upgrades. It allows property managers to input details of each individual lease for a property and use Building Owners and Managers Association (BOMA) International’s approved industry-standard methodology to generate tenant invoices.

“Errors are eliminated because the underlying calculations cannot be overwritten, and AOE is flexible enough to deal with any unique lease specific issues,” Brownfield says.

In addition to its accuracy, AOE saves its users time because lease information is only entered once. To get started, all a property manager needs to do is enter

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Escalations are the process by which operating expenses and taxes are allocated on a pro-rata basis to a property’s tenants (in addition to the base rent they pay). Because leases can—and often do—vary in definitions of who pays for what, it can be difficult to accurately calculate and invoice each tenant for its appropriate share.

“Probably half of escalation invoices have errors in them. Those can be small errors or large errors,” Brownfield says. “Every individual lease is different, which means that there is the potential each tenant’s share of operating expenses to be calculated differently.”

Having literally written the book on the topic along with Larry Mayerhofer, Brownfield saw the opportunity to create a system specifically for

knowledge to develop Alpha Office Escalations (AOE).

“Our software design incorporates input from four different real estate disciplines: accounting, programming, property management and legal concepts included in office and industrial leases. We know what people are looking for,” explains Brownfield. “It really takes a combination of all four of those specialties: people who understand how leases are crafted, what they mean and how operating contracts can impact variable expenses.”

Mayerhofer, a Certified Public Accountant with more than 30 years of real-estate accounting experience including overseeing property accounting for EOP, points out that most off-the-shelf property

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“Most people that sell to consumers will need to have a larger footprint to accommodate more inventory,” Walter Kemmsies, economist and chief strategist for industrial real estate firm JLL told Logistics Management. “E-commerce is on fire and the demand for industrial real estate is there to support it as well.”

Another factor to consider, pointed out Kemmsies, is that America has started shifting away from China as a supplier. Doing so requires changes to the supply chain, possibly resulting in more safety stock and, as a result, the need for more storage space.

Though COVID-19 has completely upended the industry, it’s also provided a spotlight for the strengths of the industrial real estate market. Just as they always have, resilient CRE professionals and their clients will adapt and respond to the challenges posed by the pandemic to capitalize on the investment opportunities the current situation promises.

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lease specifics for each tenant into AOE’s guided step-by-step profile template. After uploading or inputting operating expenses, the software instantly creates invoices. The AOE dashboard offers a high level snapshot of the building’s escalation results. The software generates an unparalleled array of simple, clean reports and invoices for ownership, management and tenants. Its standard methodology provides a valuable tool to help defend the escalation calculations in the case of a dispute, tenant audit or lawsuit.

AOE’s user support is unique to the industry.

“If a customer has a question, they contact me or our programmer. They get a personal response and an immediate answer,” says Mayerhofer.

People who use AOE love it, he adds, even bringing it with them when they move to a different company. Testimonials from some of the country’s biggest real estate companies echo that.

“The Alpha Office Escalation program has taken the guesswork out of trying to calculate gross-ups. We’ve made it part of our lease process to input new tenants and renewals into AOE as they’re signed, it saves a ton of time when preparing annual reconciliations,” says Karrie McCampbell, regional operations manager for Transwestern’s Central Region.

“We swear by the software,” says Cushman & Wakefield senior property manager Jennifer Hatchett. “Escalations are so easy for us!”

Brownfield and Mayerhofer hope their software, into which they’ve poured their knowledge, experience, time and passion, will continue to make the lives of real estate professionals a little easier.

“AOE is an escalation billing system with very helpful reports for office building management, ownership and tenants,” says Brownfield. “We specialize in escalations so you don’t have to.”

To learn more about Alpha Office Escalations, visit www.AlphaOfficeOnline.com.

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