

# MIAMI TODAY

WEEK OF THURSDAY, NOVEMBER 19, 2009

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## Operating costs hold steady, some tenants may see year-end rebates

BY MARILYN BOWDEN

Thanks to a benign hurricane season, potential tax cuts for reassessed office buildings and other factors, property managers say operating costs are not on the rise, and some tenants may even see a rebate at year's end.

"In 2008, when building managers were creating their 2009 estimates, it was a very different market," said Mike Manno, managing principal with Steelbridge Real Estate, which has a property management division.

"There was pressure on labor, utility costs were high because fuel was a big component and taxes were being driven higher because of recent building trades. Occupancy levels and consequently incomes were higher.

"Not all of those anticipated things happened. Fuel costs were lower than planned, the income of buildings isn't as high and the value of office buildings is lower. There were labor losses due to the end of the construction boom. Insurance is not as high because there were no storms.

"So overall, there was a decrease in operating costs in 2009, and we are projecting 2010 to be more like the actuals of 2009."

Basically, he said, there are two types of operating costs: controllable and uncontrollable.

"Controllables are expenses building managers and ownership can control through negotiations, such as service contracts," Mr. Manno said. "Uncontrollable are such things as utilities, taxes and insurance.



Photo by Maxine Usdan

Eric Groffman of Transwestern South Florida says the lack of a big hurricane the past few years has helped keep expenses down.

"This is the first time in a long time we have had the ability to negotiate from a strong position on service contracts due to low labor costs."

Ownership or management can also attempt to influence uncontrollable costs, he said, through appealing property taxes, monitoring utility usage and shopping for the best deal on insurance.

"I've heard mixed opinions about the future of operating expenses," said Grant Killingsworth, a vice president at Jones Lang LaSalle who leases and manages 1221 Brickell, 1428 Brickell, and One and Two Alhambra and 85 Merrick in Coral Gables.

"Some people believe they are going to go down; others do not. It's a building-by-building, owner-by-owner situation."

Some institutional owners are able to leverage costs over a national portfolio, he said, and keep costs lower on such controllables as security and jani-

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**Mike Manno**

torial services.

"A lot of buildings are chasing down LEED certification," he said, "which adds upfront costs but in the long run will reduce operating expenses."

But noncontrollables typically make up the lion's share of expenses, Mr. Killingsworth said.

"Real estate taxes could be going down in certain instances because values are decreasing, and some owners may be contesting the assessments. But the biggest threat to tenants in Florida is increases in insurance."

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“We’ve been spared major hurricanes the last few years, and that coupled with some property tax reductions has helped keep expenses down,” said Eric Groffman of Transwestern South Florida, who leases and manages Miami Center.

“In the mid-2000s, there were major hikes in insurance and property taxes – the first because of hurricanes and the second because of mass tradings of major buildings. But insurance premiums have gone down tremendously, and a very low level of sales activity is keeping the tax component rather stable.”

In most cases, Mr. Manno said, tenants are charged for operating expenses as a component of their rent on a monthly basis, based on management’s estimate.

Traditionally, Mr. Groffman said, tenants can count on a 3%-5% increase.

“At the end of the year, Mr. Manno said, “we will accumulate our actual expenses, look at what we have collected and the difference will be proportionally returned to the tenant. We believe in some cases this year we will be returning money to tenants.”