

**UNDERSTANDING THE GROSS-UP CLAUSES OF COMMERCIAL LEASES
HOUSEKEEPING COST
UNDER VARIOUS SCENARIOS**

- Assumptions**
- * Annual fixed cost of \$60,000 for common areas maintenance + \$1 /sq.ft for premises occupied by tenants.
 - * The total rentable area of the building is 100,000 sq.ft.
 - * The definition of additional rent for all leases of the building provides that the costs of housekeeping are recoverable from the tenants.

Scenario 1: The building is 100% occupied

Scenario 2: The building is 80% occupied with no gross-up clause provided for in the leases

Scenario 3: The building is 80% occupied and a 100% gross-up clause is provided for in the leases

Scenario 4: The building is 80% occupied and a 95% gross-up clause is provided for in leases

Scenario 5: The building is 80% occupied with a 100% gross-up clause (wrong method #1)

Scenario 6: The building is 80% occupied with a 100% gross-up clause (wrong method #2)

	SCENARIO 1	SCENARIO 2	SCENARIO 3 (6)	SCENARIO 4 (7)	SCENARIO 5	SCENARIO 6 (10)
Common areas (1)	60 000 \$	60 000 \$	60 000 \$	60 000 \$	60 000 \$	
Leased premises (2)	100 000 \$	80 000 \$	100 000 \$	95 000 \$	80 000 \$	
Total cost	160 000 \$	140 000 \$	160 000 \$	155 000 \$	140 000 \$	175 000 \$
Recovered by landlord (3)	160 000 \$	112 000 \$	128 000 \$	124 000 \$	140 000 \$ (8)	140 000 \$
Borne by landlord (4)	- \$	28 000 \$	12 000 \$	16 000 \$	- \$	- \$
Tenant cost per sq.ft. (5)	1,60 \$	1,40 \$	1,60 \$	1,55 \$	1,75 \$ (9)	1,75 \$

NOTES

(1) Common areas fixed cost per contract

(2) Leased premises cost per contract: \$1 / sq.ft. of occupied space

(3) Cost recovered by landlord: $\frac{\text{occupied area}}{\text{total area}} \times \text{total cost}$

(4) Cost borne by landlord: $\text{total actual cost} - \text{cost recovered}$

(5) Tenant cost per sq.ft.: $\frac{\text{total cost}}{\text{total area}}$

(6) Scenario 3: thanks to the gross-up clause, the landlord can increase these costs to the amount obtained if the building was 100% occupied, like scenario 1. However, the actual costs are identical to scenario 2 since the occupancy rate remains at 80%.

(7) Scenario 4: thanks to the gross-up clause, the landlord can increase these costs to the amount obtained if the building was 95% occupied. However, the actual costs are identical to scenario 2 since the occupancy rate remains at 80%.

(8) Cost recovered by landlord: $\frac{\text{occupied area}}{\text{occupied area}} \times \text{total cost}$

(9) Tenant cost per sq.ft.: $\frac{\text{total cost}}{\text{occupied area}}$

(10) Scenario 6: the actual costs are identical to scenario 2 since the occupancy rate remains at 80%. Yet the landlord grosses-up the total actual costs per the following formula: $140\,000 \$ / 80\% \times 100\%$