Randolph T. Mason, CCIM, SIOR
(949) 705-7000
RMason@CRSCRE.com

What is a Base Year Stop? This picture helps to explain.

So, you've just gotten a lease proposal which includes a Base Year Stop clause. What exactly does a Base Year Stop mean?

The LeaseMatrix Commercial Leasing Glossary defines a Base Year Stop as:

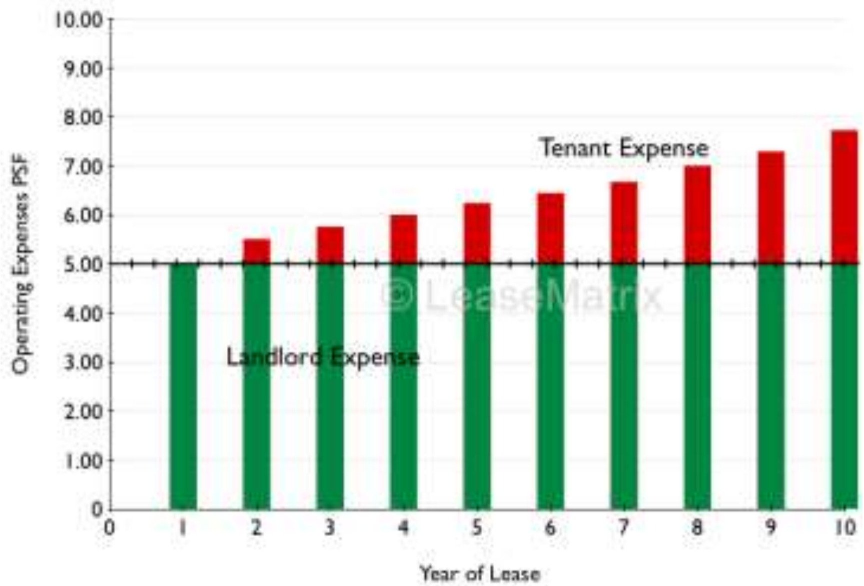
The annualized amount per rentable square foot that a landlord pays toward the operating expenses of a building. Amounts exceeding the expense stop are billed to the tenant. Expense stops are often set following the first year of the lease (i.e. the "Base Year").

What is the purpose of a Base Year Stop?

A Base Year stop benefits landlords by limiting their exposure to operating expenses being greater than they anticipated over the life of a lease. For this reason, many landlords look to incorporate some type of Base Year Stop into Full Service leases because it protects their operating income.

As the property's expenses increase over the life of a tenant's lease term, the landlord is then able to bill the tenant for those increases, rather than having to absorb them on their own and impact their investment return.

Let's look at a more concrete example; consider a lease that has a $5.00/sf Base Year Stop. See how the "Base Year" is established in the first year of the lease term? Each year thereafter, the tenant is responsible for any increases above this amount.



The chart includes the landlord's operating expense responsibility in Green and the tenant's expense reimbursement amount in Red. This chart illustrates exactly how a landlord is able to limit exposure to future inflation in operating expenses.

Is a Base Year Stop different from an Expense Stop?

A Base Year Stop is actually a certain type of Expense Stop. The difference between an Expense Stop and a Base Year Stop is that an Expense Stop's value is a predetermined dollar amount, whereas a Base Year Stop is calculated on a calendar year basis or the first 12 months of a tenant's occupancy. Agreeing to a Base Year Stop, rather than an explicit Expense Stop has several implications:

1. A Base Year Stop is derived directly from the property's operating history, whereas an Expense Stop is can be arbitrarily set. For this reason, a Base Year Stop usually establishes a more accurate starting point to benchmark future operating expense increases.
2. The downside of a Base Year Stop is that the landlord has some level of control (i.e. ability to manipulate) during the period which the Base Year Stop is being established. Because of this, many tenants insist on including certain checks and balances within their Base Year Stop clause. The most popular precaution is to the right to audit the landlord's operating expense ledger and expense reconciliation calculations once a year.
3. A stated Expense Stop does avoid the need for a tenant to be concerned about how the Base Year Stop is established, but it is important to validate that the Expense Stop that is used is a realistic estimate from which to benchmark future expense increases. If the Expense Stop is artificially low, the tenant risks being exposed to larger than expected reimbursement billings from the landlord.