DLS COMMERCIAL · REAL ESTATE · NYC OFFICE LEASING · MARKET INTELLIGENCE · 2026

Commercial Real Estate Operating Expense Escalations

Tenant shall pay its proportionate share of increases in the building's operating expenses over a base year.

Operating expenses are the costs a landlord incurs to operate, maintain, repair and manage an office building. In most New York City office leases, the landlord pays these expenses directly, then passes through to tenants their proportionate share of any increase above an agreed base year.

The following sections explain proportionate share, what is included in operating expenses, how the base year works, and how tenants can evaluate the expense over the lease term.

PROPORTIONATE SHARE

Proportionate share is generally the tenant's rentable square footage divided by the building's total rentable square footage. A tenant occupying 5,000 SF in a 100,000 SF building has a 5% share.

EXAMPLE · PROPORTIONATE SHARE

Tenant Rentable Square Footage ÷ Building Rentable Square Footage = Proportionate Share

WHAT COUNTS AS OPERATING EXPENSES

Operating expenses commonly include payroll, security, cleaning, repairs, maintenance contracts, insurance, utilities for common areas, management fees and other recurring building costs. The exact definition is controlled by the lease. Capital improvements, leasing commissions, debt service, depreciation and costs benefiting other tenants are commonly excluded or limited.

EXAMPLE · OPERATING EXPENSE CALCULATION

Tenant's annual charge: 5% × $50,000 = $2,500

DETERMINING THE BASE YEAR

The base year establishes the benchmark operating-expense amount. The tenant generally pays only its share of expenses above that benchmark, not the base-year amount itself.

The lease should identify the base year, the expense categories included and the method used to calculate increases.

A calendar-year base is common. If the lease begins during 2026, the parties may use calendar year 2026, a later stabilized year, or a negotiated amount as the benchmark. The strongest tenant position is usually a base year that reflects a full year of normal building operations.

A partial, unusually low or non-stabilized base year can create an artificially large increase in the first comparison year.

Tenants should also review gross-up provisions, management-fee limits, exclusions, audit rights and whether controllable expenses are capped. These provisions often matter more than the stated base year itself.

EXAMPLE · BASE-YEAR STRUCTURE

Calendar Year 2026	Benchmark
Calendar Year 2027	First Comparison

PROJECTING FUTURE OPERATING EXPENSES

Future operating costs cannot be predicted precisely. For planning purposes, tenants often model a fixed annual increase, commonly 3%, and then test higher scenarios. Historical building statements can provide context, but they should be normalized for unusual repairs, vacancies, insurance spikes and one-time costs.

EXAMPLE · ANNUAL GROWTH FORMULA

Prior-Year Expense × (1 + Growth Rate) = Projected Expense

The 10-year model below assumes a tenant occupying 5,000 rentable square feet in a 100,000-square-foot building, a $1,500,000 operating-expense base year, and 3% annual growth.

10-YEAR OPERATING EXPENSE MODEL · ILLUSTRATIVE

TENANT SF	BUILDING SF	PRO-RATA SHARE	BASE YEAR OPEX	GROWTH
5,000 SF	100,000 SF	5.00%	$1,500,000	3.00%

LEASE YEAR	BUILDING OPEX	INCREASE OVER BASE	ANNUAL CHARGE	PER SF
YEAR 1	$1,500,000	$0	Included	Included
YEAR 2	$1,545,000	$45,000	$2,250	$0.45
YEAR 3	$1,591,350	$91,350	$4,568	$0.91
YEAR 4	$1,639,091	$139,091	$6,955	$1.39
YEAR 5	$1,688,263	$188,263	$9,413	$1.88
YEAR 6	$1,738,911	$238,911	$11,946	$2.39
YEAR 7	$1,791,078	$291,078	$14,554	$2.91
YEAR 8	$1,844,811	$344,811	$17,241	$3.45
YEAR 9	$1,900,155	$400,155	$20,008	$4.00
YEAR 10	$1,957,160	$457,160	$22,858	$4.57
TOTAL · YEARS 2–10			$109,791	$21.96