CATS Leases

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November 24, 2025

CITY OF CHARLOTTE
INTERNAL AUDIT

CATS LEASES AUDIT REPORT SUMMARY

Objective

To evaluate the effectiveness of CATS' revenue lease management practices.

Background

In FY 2024, CATS had a ridership of 14,900,000 between light rail, bus, streetcar, vanpool and special transportation services (STS). CATS maintains 26 light rail stations, 10 of which are park and ride stations, and one is the Charlotte Transportation Center (CTC), the primary bus transfer facility for CATS. Of these facilities, three have portions that have been leased by the City to retail businesses. These three locations are the CTC, and the JW Clay and University City Boulevard (UCB) parking decks.

CATS contracts with a vendor, NAI Southern, for the property management of the three locations. These services included finding tenants, negotiating rates, preparing leases, collecting rent, making repairs, and providing janitorial services.

Conclusion

CATS' revenue lease management practices lack the necessary oversight and controls to ensure effective and efficient operations.

1. **CATS should improve oversight and management of its real estate lease portfolio.**
   - The property management company did not perform common area maintenance (CAM) cost estimates and reconciliations for the CTC property as required by the lease contracts. This resulted in lost rent revenue of at least $148,000 per year.
   - According to a holdover tenancy clause, one tenant has been undercharged $11,728 annually since 2010, totaling $176,000.
   - Auditors noted billing issues related to duplicate payments, late charges, non-itemized charges, and contaminated recycling surcharges.
   - CATS should explore opportunities to recover lost rent and resolve billing issues with tenants and the property management company where possible.
   - CATS should continue to periodically assess their real estate portfolio, minimizing lease and operational costs where possible.

2. **One vendor is operating on City property without a lease.**
   - CATS confirmed that a bank's ATM is located on City property without an existing lease.
   - CATS should periodically ensure that any vendor operating on CATS property has a valid lease.
   - CATS should contact and resolve lease questions with the bank in question.

Actions Taken

- In September 2024, CATS decided to discontinue contracting for leasing and property management and will perform this function in-house. The CTC contract ended on September 30, 2025 and the contract for JWC, UCB and SC will end on December 31, 2025.
- CATS has also removed retail operations from the CTC to complete renovations and address safety and security improvements.

Actions Planned

CATS has accepted all recommendations and is working to implement corrective actions by June 30, 2026.

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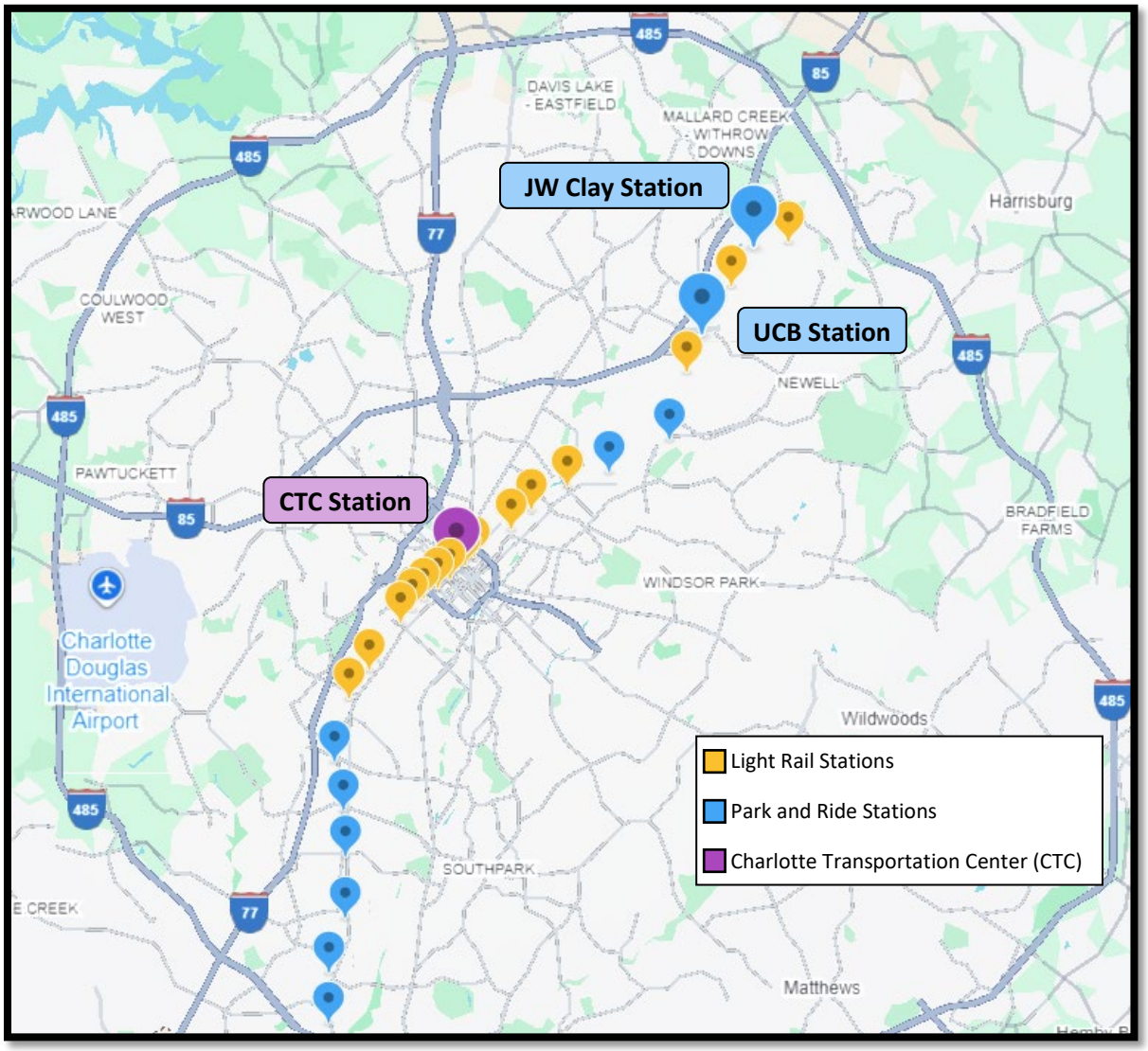
To make a request, please contact the Internal Audit ADA Liaison via email or phone at 980-257-7997.

Objective

To evaluate the effectiveness of CATS' revenue lease management practices.

Background

The Charlotte Area Transit System (CATS) provides community-wide public transportation services, operating the largest transit system between Washington, D.C. and Atlanta. In FY 2024, CATS had a ridership of 14,900,000 between light rail, bus, streetcar, vanpool and special transportation services (STS). CATS maintains 26 light rail stations, 10 of which are park and ride stations and one is the Charlotte Transportation Center (CTC), the primary bus transfer facility for CATS. Of these properties, three have portions that have been leased by the City to retail businesses. These retail businesses include restaurants, convenience stores, and gyms, the properties of which are managed by a third party company, NAI Southern. The three facilities with leased property are the CTC, the JW Clay parking deck, and the University City Boulevard (UCB) parking deck, identified on the map below.



FY25 City revenue from the CTC and JWC/UCB retail tenants were approximately $340,000 and $472,000, respectively. Yearly contract expenses for property management, including overhead and maintenance on non-retail space for the CTC and JWC/UCB locations are noted below. For the CTC, contract expenses exceed lease revenue because the janitorial and other operating costs support the entire facility, not just the leased retail spaces. The JWC and UCB facilities have fewer common areas and lower foot traffic than the CTC, so lease revenue comes closer to approximating janitorial and other operating costs. Expenses related to Sugar Creek are also included in these contract expenses, though the facility does not have rentable space.

CTC Contract Expenses			
	FY25	**FY24**	**FY23**
NAI	$131,597	$143,337	$144,746
Janitorial	$567,804	$518,468	$505,463
Other Operating	$444,342	$397,888	$419,659
Total Contract Expenses	**$1,143,743**	**$1,059,693**	**$1,069,868**

JWC, UCB, SC Contract Expenses			
	FY25	**FY24**	**FY23**
NAI	$106,041	$97,042	$109,884
Janitorial	$144,667	$148,104	$160,378
Other Operating	$224,691	$297,888	$209,161
Total Contract Expenses	**$475,399**	**$543,034**	**$479,423**

Findings and Recommendations

1. CATS should improve oversight and management of its real estate lease portfolio.

The Charlotte City Council City-Owned Real Estate and Facilities Policy directs staff to fully analyze financial implications and alternatives using a portfolio management approach when assessing various real estate and facility decisions. CATS contracts with a vendor, NAI Southern, for the property management of the CTC, the JW Clay Blvd parking deck, and the UCB parking deck. These services include but are not limited to:

- Finding tenants
- Negotiating rates
- Preparing leases
- Collecting rent
- Making repairs
- Janitorial services

The contracts for property management are split by location. One contract pertains to the CTC and the other is for the JW Clay, UCB, and Sugar Creek (SC) parking decks. The CTC contract expired on 9/30/2025 and the other expires on 12/31/2025. Currently, the Sugar Creek parking deck does not have rentable space.

Two components of the portfolio management approach are to minimize lease costs and to minimize the operating costs of facilities. Auditors noted issues with lease administration practices and property management. Generally, the two NAI Southern contracts audited did not include detailed scopes of work or performance metrics. For example, the contracts do not establish expected cost recovery percentages for the leased facilities or facility cleanliness requirements. Without performance metrics and benchmarks such as these, an entity risks losing control over deliverables, cost creep, compromising quality, and potentially damaging its reputation.

Lease Administration Practices

Hold Over Tenancy

In the real estate industry, when a lease agreement expires and the tenant continues to occupy the premises without a renewed lease, the situation is commonly referred to as a "holdover" tenancy. In such cases, tenants typically remain on a month-to-month basis unless the original lease specifies a different holdover arrangement or rate. One tenant has been in holdover status since their lease expired in 2010. Prior to the expiration of the contract, the contract's lease rate was increasing at 5% per year. The rate for the final year of the contract was $11,728 annually ($977 monthly). The original contract had a section related to holding over (emphasis added):

> "In the event of holding over by Tenant after expiration or termination of this Lease without the written consent of Landlord, **Tenant shall pay** as liquidated damages and not as a penalty for each full or partial month of holdover **twice the Rent which Tenant was obligated to pay for the month immediately preceding the end of the Term**. No holding over shall operate to extend the Term. In the event of any unauthorized holding over, Tenant shall indemnify Landlord against all claims for damages by any other tenant to whom Landlord may have leased all or any part of the Premises and against all losses suffered by Landlord arising out of other agreements concerning the Premises which it is unable to honor, in whole or in part. **Any holding over with Landlord's**

> **written consent shall constitute a lease from month to month under all the terms and provisions of this Lease, except Rent which shall be as specified above.**"

Based on the original contract language, the tenant has been undercharged $11,728 annually since 2010, totaling approximately $176,000.

Common Area Maintenance Cost Recovery

Most of the lease contracts also contain sections that allow the City to recover "Project Insurance and Common Area Maintenance" costs, referred to as CAM costs. These costs include, but are not limited to, the costs of:

- common utilities
- janitorial services and supplies
- pest control
- security
- elevator maintenance and repair
- trash removal
- property management fees
- property insurance

CTC tenants with these sections in their contracts are charged based on their proportional leased square footage. Monthly charges are estimated at the beginning of the year and a reconciliation is performed based on the true charges at the end of each year. CTC CAM costs for CY24 totaled approximately $481,000, split between two pavilions: Pavilion A, the southern wing of the CTC, at $370,000 and Pavilion B, the northern wing, at $111,000 (See Appendix B). Section 2.2 of the lease agreements details Project Insurance and Common Area Maintenance Costs. The full section 2.2 for one of the tenant's leases can be found in Appendix C; we have included an excerpt relevant to this finding below (emphasis added):

> "Beginning on the Lease Commencement Date, each month Tenant shall pay to Landlord, as Additional Rent, Project Insurance and Common Area Maintenance Costs in accordance with this Section 2.2. **The amount of these costs that Tenant shall pay will be Landlord's full and actual total costs of insuring the Project and of maintaining the Common Areas, pro-rated based on the ratio of the Leased Premises' square footage and the total square footage of all retail suites in the building.**

NAI Southern did not perform CAM cost estimates and reconciliations for the CTC property as required by the lease contracts. Tenants were charged a flat rate of $0.21 per square foot per month with the exception of two tenants. One was charged $0.24 per square foot per month and the other was not charged although the contract included a similar provision related to "Uncontrolled Expenses." Based on a review of CAM contract language, Internal Audit recalculated the CAM allocations and determined that the tenants' contractual obligations would be unreasonably high.

The language in the CTC CAM sections differ from the CAM sections in the lease contracts for the JW Clay and UCB retail tenants (See Appendix D). For the JW Clay and UCB facilities, the overall CAM is initially reduced to a retail allocation. The tenants CAM expenses are then pro-rated based on their proportional share of the retail allocation. If this was the intended method of CAM recovery for the CTC, CATS should have executed contract amendments to more accurately define contractual obligations. This underscores the importance of lease administration, contract monitoring, and minimizing operational costs.

Auditors applied the CAM calculation approach used for the JW Clay and UCB tenants to the CTC, resulting in a billing difference of $148,430 as shown below.

		NAI Billing		Audit Calculation		
	Sq Ft	Monthly (Per Sq Ft)	Annual NAI Billing	Monthly (Per Sq Ft)	Annual	Difference (Annual)
Tenant A	2,296	$0.21	$6,072	$1.53	$42,207	$36,134
Tenant B	1,035	$0.24	$2,712	$1.53	$19,026	$16,314
Tenant C	4,091	$0.21	$9,870	$1.77	$86,896	$77,026
Tenant D	680	$0.21	$1,580	$1.77	$14,444	$12,864
Tenant E	324	$0.21	$790	$1.77	$6,882	$6,092
Tenant F[1]	111	$0.00	$0.00	$1.77	$2,358	Undetermined
Tenant G[2] (Vacant)	320	$0.00	$0.00	$1.77	$6,797	CATS Burden
Tenant H[2] (Vacant)	110	$0.00	$0.00	$1.77	$2,337	CATS Burden
		Total	**$21,025**		**$180,947**	**$148,430**

Property Management

The two property management (PM) contracts with NAI Southern mentioned in this finding are paid on a reimbursement basis. Property management expenses incurred are batched into funding requests and sent to the City for reimbursement. Individual invoices within those funding requests are reviewed for legitimacy and accuracy, then approved by the property manager who is an employee of NAI Southern.

Auditors judgmentally selected and tested 400 invoices within 45 funding requests. While the following issues cannot be extrapolated to the entire population, they are indicative of issues with the quality of property management provided by the vendor and a lack of contract monitoring by CATS.

- Stale/Past Due Accounts – Among the invoices tested, 115 (36%) showed an account was past due (i.e., water bills). Of these, 63 invoices (55%) included late charges totaling approximately $2,600. CATS Accounting was aware that NAI Southern does not pay their subcontractors until they have been paid, which is why late fees appeared on several invoices. However, the CTC contract is a reimbursement contract, and there is no provision in the contract that would allow NAI Southern to be reimbursed for an expense *before* they have paid it. Invoices indicated the internet account had been suspended once at the CTC and that water had been set to be shut off twice for the CTC due to past due amounts.
- Duplicate Invoices – Three invoices were duplicates. NAI Southern had identified two of the three invoices after the original billing. The remaining invoice was identified at the time of our testing.

[1] Since the contract with the "Uncontrolled Expenses" provision does not explicitly state the calculation to use, we have not included it in the recalculation difference, though *some* amount should be owed.
[2] Since these spaces are vacant, the burden of CAM expenses is on CATS.

- Incorrect Charges – Three invoices included incorrect charges. One invoice marked the incorrect line as the amount due, resulting in an overpayment of approximately $71. Another invoice charged the City approximately $8,500 for commission on a rental without waiting the one year waiting period. The third invoice charged the City $300 for two elevator inspections; however, the invoiced elevators were not located on City property.
- Ineffective Property Management – Fifteen of the 45 funding requests included invoices for trash/recycling collection. Of those 15, 13 contained surcharges totaling approximately $2,500 for recycling pickups that were contaminated with trash. While the surcharges appeared legitimate and were correctly paid by the City, the persistence of these contaminated recycling surcharges (included 87% of the time) instead of a modification to the waste management agreement indicates a lack of prudent management by NAI Southern.
- Miscellaneous Charges – Ten of the 45 funding requests included invoices with the description "Supply Usage Over Budget" and other similar variations. These charges totaled approximately $28,000. Since the invoices were not itemized, an analysis of the business purpose for the specific supplies purchased is not performed which is necessary to determine if these purchases were necessary or even made. For consumable products purchased on a reimbursement contract, non-itemized invoices present a higher risk of overbilling since there is no way to retroactively determine if they were needed, delivered, or used.

Recommendation 1A: CATS should explore opportunities to recover lost rent (including CAM costs) and overpayments from the property management company where possible.

Value Added: Cost Savings

CATS Response: Agree. On September 19, 2025, CATS contacted NAI Southern regarding the incorrect charges for elevator inspections, and NAI Southern issued a credit of $300 on their September 25, 2025 invoice. CATS Finance has reviewed CTC invoices for fiscal year 2025 and found no significant issues, including duplicate payments. Finally, CATS will work with the City Attorney's Office to evaluate the potential to recoup lost rent with CTC tenants. This is expected to be completed by June 30, 2026.

Recommendation 1B: CATS should continue to periodically assess their real estate portfolio, minimizing lease and operational costs where possible. This would include establishing cost recovery goals, benchmarking costs, and establishing performance metrics for significant tasks like janitorial services.

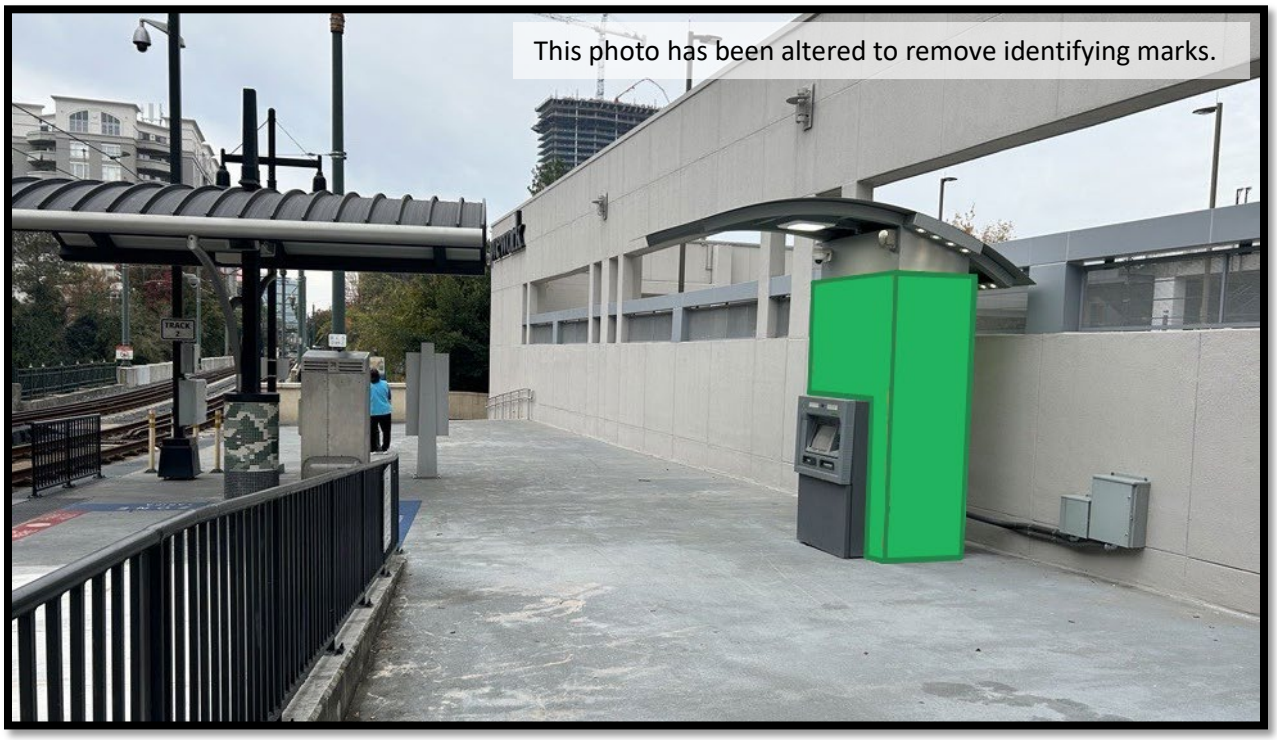
Value Added: Risk Reduction; Cost Savings; Efficiency; Effectiveness

CATS Response: Agree. In September 2024, CATS decided to discontinue contracting for leasing and property management and will perform this function in-house. CATS has also removed retail operations from the CTC to complete renovations and address safety and security improvements. CATS will establish annual metrics to monitor the effectiveness of its leasing program at the Blue Line parking decks, including Cost per Square Foot, Net Operating Income, Occupancy Rate, and Lease Renewal Rate. CATS will work toward establishing these metrics by July 1, 2026 to allow annual metrics to be measured for FY27.

2. *One vendor is operating on City property without a lease*

Under the COSO Internal Control Framework, public entities are expected to implement control activities that ensure accountability over the use and management of government assets. This includes maintaining accurate and complete records of lease agreements and ensuring that leasing activity occurs only in designated and approved areas.

During testing, auditors performed site visits at light rail stations throughout the city to confirm completeness of the list of rented properties. Auditors identified an ATM located at the Brooklyn Village station which was not one of the listed tenants. CATS was able to confirm that the ATM is located on City property based on GIS information, however they were unaware of an existing lease for this ATM and unable to find one.



Action Taken: CATS has contacted the bank.

Recommendation 2a: CATS should periodically review publicly available property to ensure appropriate leases have been established.

Value Added: Risk Reduction

CATS Response: Agree. CATS will modify its existing policy on Third Party Use of CATS Real Estate Facilities to include a requirement for an annual review of CATS properties to ensure there is not unauthorized use of our land and ensure entities using City property have agreements in place. This revision is expected to be complete by June 30, 2026. As part of the annual review, CATS will document any use of our property that does not have an agreement in place and contact those entities to establish an agreement or request they remove the use from our property.

Recommendation 2b: CATS should contact the bank in question to determine if there is an existing lease, perhaps with a different City department authorizing the placement of this ATM. If there is not an existing lease, CATS should consult with the City Attorney's office regarding restitution and establishing a lease.

Value Added: Risk Reduction; Cost Savings

CATS Response: Agree. There is overlapping property ownership interest in this area. CATS has contacted the bank to resolve this issue and will determine if a lease needs to be put in place. CATS will work to resolve this issue by June 30, 2026.

Conclusion

CATS' revenue lease management practices lack the necessary oversight and controls to ensure effective and efficient operations.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and CATS. Following issuance, audit reports are sent to City Council and subsequently posted to the Internal Audit website.

Scope, Methodology, and Compliance

Scope

The audit covered CATS revenue generating leases and their related property management contracts for the period May 2023 to March 2025.

Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed CATS Staff
- Reviewed property management contracts
- Reviewed lease contracts
- Judgmentally selected two consecutive months and tested all deposits against lease details
- Judgmentally selected and tested property management invoices from those two months based on frequency and materiality.
- Performed a physical review of light rail stations

Where judgmental sampling occurred, the results cannot be extrapolated to the population as a whole.

Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the processes used throughout the leasing process and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:

- Control Environment – The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.
- Risk Assessment – The process for identifying and assessing risks that may limit the achievement of objectives
- Control Activities – The actions management establishes through policies and procedures to achieve objectives and respond to risks.

Internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix A.

Appendix A

The Five Components and 17 Principles of Internal Control

Control Environment	1. The oversight body and management should demonstrate a commitment to integrity and ethical values. 2. The oversight body should oversee the entity's internal control system. 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals. 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	6. Management should define objectives clearly to enable the identification of risks and define risk tolerances. 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives. 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks. 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	10. Management should design control activities to achieve objectives and respond to risks. 11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks. 12. Management should implement control activities through policies.
Information & Communication	13. Management should use quality information to achieve the entity's objectives. 14. Management should internally communicate the necessary quality information to achieve the entity's objectives. 15. Management should externally communicate the necessary quality information to achieve the entity's objectives.
Monitoring	16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results. 17. Management should remediate identified internal control deficiencies on a timely basis.

Appendix B

NAI Southern Income Statement Excerpts

CTC Pavilions A & B

ENTITY: 185
REPORT: SG_INCSTATE
FORMAT: DLINC

Income Statement

Charlotte Transit - Pavilion A

Page: 2
Date: 3/20/2025
Time: 01:46 PM

Cash

Thru:	Current Period Actual Dec 2024	Current Period Budget Dec 2024	Variance	Year-To-Date Actual Dec 2024	Year-To-Date Budget Dec 2024	Variance
TOTAL PARKING OPERATIONS	1,314.67	1,875.00	560.33	22,779.33	22,500.00	(279.33)
SUPPLIES EXPENSE						
LIGHTS - INTERIOR/ BULBS	0.00	150.00	150.00	0.00	1,800.00	1,800.00
MAT RENTAL	569.34	520.00	(49.34)	4,808.24	6,240.00	1,431.76
MAINTENANCE SUPPLIES	327.54	0.00	(327.54)	1,311.28	1,600.00	288.72
JANITORIAL SUPPLIES	0.00	107.12	107.12	6,475.16	1,285.00	(5,190.16)
ELECTRICAL BALLAST	134.06	0.00	(134.06)	134.06	0.00	(134.06)
PLUMBING SUPPLIES	0.00	0.00	0.00	666.95	1,800.00	1,133.05
HVAC FILTERS	0.00	0.00	0.00	566.36	400.00	(166.36)
TOTAL SUPPLIES EXPENSE	1,030.94	777.12	(253.82)	13,962.05	13,125.00	(837.05)
GENERAL EXPENSES						
TELEPHONE	615.49	600.00	(15.49)	7,162.88	7,200.00	37.12
DOOR - ELECTRICAL	204.62	0.00	(204.62)	1,599.50	0.00	(1,599.50)
SIGNS / DIRECTORY	0.00	0.00	0.00	184.82	0.00	(184.82)
LOCK / KEYS	0.00	0.00	0.00	249.44	896.83	647.39
MISC PROPERTY EXPENSE	0.00	83.37	83.37	0.00	1,000.00	1,000.00
PAINTING	0.00	0.00	0.00	1,500.00	142.50	(1,357.50)
AWNING MAINTENANCE	0.00	0.00	0.00	0.00	1,420.00	1,420.00
BUILDING - OTHER	0.00	0.00	0.00	875.00	103.00	(772.00)
TOTAL GENERAL EXPENSE	820.11	683.37	(136.74)	11,571.64	10,762.33	(809.31)
MAINTENANCE SALARY EXPENSE						
MAINTENANCE - PROPERTY	10,949.76	10,950.00	0.24	131,397.12	131,400.00	2.88
TOTAL MAINTENANCE SALARY EXP	10,949.76	10,950.00	0.24	131,397.12	131,400.00	2.88
TOTAL CAM EXPENSES	31,402.69	37,942.49	6,539.80	370,143.79	453,471.33	83,327.54

ENTITY: 186
REPORT: SG_INCSTATE
FORMAT: DLINC

Income Statement

Charlotte Transit - Pavilion B

Page: 5
Date: 3/20/2025
Time: 01:46 PM

Cash

Thru:	Current Period Actual Dec 2024	Current Period Budget Dec 2024	Variance	Year-To-Date Actual Dec 2024	Year-To-Date Budget Dec 2024	Variance
LIGHTS - INTERIOR/ BULBS	0.00	100.00	100.00	0.00	1,200.00	1,200.00
MAT RENTAL	569.34	560.00	(9.34)	4,808.14	6,720.00	1,911.86
MAINTENANCE SUPPLIES	327.54	41.63	(285.91)	1,311.28	500.00	(811.28)
JANITORIAL SUPPLIES	0.00	107.12	107.12	5,767.93	1,285.00	(4,482.93)
ELECTRICAL BALLAST	0.00	0.00	0.00	474.14	0.00	(474.14)
PLUMBING SUPPLIES	0.00	133.37	133.37	0.00	1,600.00	1,600.00
HVAC FILTERS	0.00	0.00	0.00	566.35	500.00	(66.35)
TOTAL SUPPLIES EXPENSE	896.88	942.12	45.24	12,927.84	11,805.00	(1,122.84)
GENERAL EXPENSES						
TELEPHONE	256.95	150.00	(106.95)	2,942.83	1,800.00	(1,142.83)
MISC PROPERTY EXPENSE	0.00	100.00	100.00	0.00	1,200.00	1,200.00
AWNING MAINTENANCE	0.00	0.00	0.00	0.00	1,400.00	1,400.00
BUILDING - OTHER	0.00	0.00	0.00	0.00	103.00	103.00
TOTAL GENERAL EXPENSE	256.95	250.00	(6.95)	2,942.83	4,503.00	1,560.17
TOTAL CAM EXPENSES	8,884.47	16,958.00	8,073.53	111,418.14	219,640.05	108,221.91

CAM Expenses	
Pavilion A	$370,144
Pavilion B	$111,418
Total	$481,562

Appendix C

Burger King CTC Contract Excerpt Section 2.2

With Relevant Definitions

2.2 Project Insurance and Common Area Maintenance Costs. Beginning on the Lease Commencement Date, each month Tenant shall pay to Landlord, as Additional Rent, Project Insurance and Common Area Maintenance Costs in accordance with this Section 2.2. The amount of these costs that Tenant shall pay will be Landlord's full and actual total costs of insuring the Project and of maintaining the Common Areas, pro rated based on the ratio of the Leased Premises' square footage and the total square footage of all retail suites in the Building. These costs may include, but are not limited to, the costs of: (i) common utilities; (ii) janitorial services and supplies; (iii) pest control; (iv) security, including for example the enforcement of parking rules, regulatoins, and ordinances; (v) maintenance and repair of elevators, fire alarm systems, fire sprinkler systems, HVAC systems, electical systems, plumbing systems, landscaping and grounds, light fixtures, interior corridor partitioning, ceilings, floor covering, doors and plate glass; (vii) dumpster and trash removal service; (viii) property management fees; and (ix) property insurance. Except with respect to those Project Insurance and Common Area Maintenance Costs that are not within Landlord's reasonable control, and except with respect to the Lease Term's first 12-month period, the amount that Tenant must pay under this Section 2.2 for any particular 12-month period during the Lease Term may not increase by more than five percent (5%) above the amount that Tenant was obligated to pay under this Section 2.2 for the immediately preceding 12-month period of the Lease Term. For each Calendar Year, Landlord shall provide Tenant with advance written notice of the estimated Project Insurance and Common Area Maintenance Costs that Tenant will be obligated to pay for that Calendar Year. For the first year of the Lease, Tenant's estimated Project Insurance and Common Area Maintenance Costs are estimated to be $2.50 per square foot. Landlord and Tenant acknowledge and agree that no property taxes will be included in the Additional Rent.

Common Areas:	The Common Areas are all areas in and adjacent to the Building that either support one or more Building systems or that are for the common use or benefit of the Building's tenants or the public. The Common Areas include, for example, all of the following: grounds, outdoor plazas and walkways, driveways, parking areas, loading docks, corridors, lighting, trash and dumpster enclosures, elevators and elevator foyers, stairwells, entrances, lobbies, restrooms, mechanical rooms, water holding areas, janitorial closets, telephone rooms, electrical rooms, and elevator mechanical rooms.
Project:	The Project is the mixed-use use development owned and constructed by Landlord and others on the two blocks in the City of Charlotte bounded by East Trade Street, South Brevard Street, East Fourth Street, and the railroad right of way shown on the map recorded in Book 3734, Page 184 of the Mecklenburg County Public Registry. The Project includes the Building, the Bus Transfer Pavilion, the Transit Pavilion, exterior walkways, exterior plazas, a light rail platform, a section of light rail line, and additional land, all as shown on the site plan attached as **Exhibit A-1**.

Appendix D

Sabor JW Clay Contract Excerpt Section 2.2

2.2 Common Area Maintenance Costs. The Retail Space constitutes 6.1% of the total area of the Building. Beginning on the Rent Commencement Date, Tenant hereby agrees to pay Landlord, monthly as Additional Rent, Tenant's pro rata share of the costs incurred by Landlord, for each calendar year of the Lease Term, of both the property insurance for, and the maintenance of, the Common Areas attributable to to the Retail Space ("CAM Costs"). Common Areas are attributable to the Retail Space for purposes of this section if they are available to be used by any of the Retail Space tenants or their employees, guests, or invitees or if those areas otherwise serve or support any of the Retail Space. CAM Costs may include, but shall not be limited to: (i) common utilities; (ii) janitorial services and supplies; (iii) pest control; (iv) security; (v) maintenance and repair of elevators, fire alarm systems, fire sprinkler systems, HVAC systems, electical systems, plumbing systems, landscaping and grounds, light fixtures, interior corridor partitioning, ceilings, floor covering, doors and plate glass; (vii) dumpster and trash removal service; (viii) property management fees; and (ix) property insurance. CAM Costs shall not include repair, maintenance, or replacement of the Building exterior shell, roof, and structural systems. If the cost of any discrete item of maintenance or repair that qualifies as a CAM Cost exceeds ten thousand dollars ($10,000.00), it shall be treated as a capital cost or a capital expenditure under either generally accepted accounting principals ("GAAP") or Internal Revenue Code ("IRC") guidelines, and Tenant's reimbursement obligation for such CAM Costs for each calendar year shall include only the annual amount of straight line depreciation for such item as specified under GAAP or IRC guidelines. Tenant shall not have any obligation to pay for the depreciation of any capital expenditures or capital costs for the Common Areas for any periods outside the Lease Term, (as it may be extended). Tenant's Leased Premises constitutes 12.5% of the total area of the Retail Space (excluding the Retail Parking), and therefore Tenant's prorata share of the CAM Costs shall be 12.5%. Tenant shall reimburse Landlord for its pro rata share of the CAM Costs in equal monthly installments, based on the estimates specified below, and such reimbursement shall be pro rated for any partial month of the Lease Term on a per diem basis. For the first calendar year of the Lease Term, Tenant's reimbursement obligation for the CAM Costs is estimated to be $2.50/SF per year. For each calendar year of the Lease Term thereafter, the amount of Tenant's reimbursement for CAM Costs shall not increase by more than five percent (5%) from that amount paid by Tenant for the previous calendar year of the Lease Term on expenses reasonably controllable by Landlord. Landlord shall provide Tenant with a written estimate of the CAM Costs for each subsequent calendar year of the Lease Term at least thirty (30) days prior to the commencement thereof, and Tenant's monthly CAM Costs payments during the year shall be in accordance with that estimate. No later than ninety (90) days after the end of each calendar year of the Lease Term, Landlord shall provide Tenant with a list of the types and amounts of the actual CAM Costs incurred and paid by Landlord during the calendar year just ended, as well as a calculation of Tenant's pro rata share of those CAM Costs actually incurred and paid. Landlord and Tenant shall then reconcile between themselves any overpayment or deficiency in Tenant's reimbursement of CAM Costs paid to Landlord during the calendar year just ended. Specifically, Landlord shall pay Tenant the amount of any overpayment in Tenant's reimbursement (*i.e.*, the amount by which Tenant's CAM Cost payments during the calendar year just ended exceeded its pro rata share of the actual CAM Costs incurred during that year per Landlord's year-end calculation), or Tenant shall pay Landlord the amount of any deficiency in Tenant's reimbursement of CAM Costs (*i.e.*, the amount by which Tenant's pro rata share of the actual CAM Costs incurred during the year just ended per Landlord's year-end calculation exceeded Tenant's CAM Costs payments during that calendar year). Such payment by Landlord or Tenant, as applicable, shall be made within thirty (30) days after Tenant's receipt of Landlord's written notice reconciling the actual overpayment or deficiency in Tenant's reimbursement of CAM Costs paid to Landlord during the calendar year just ended. The parties acknowledge and agree that no property or real estate taxes will be included in the CAM Costs or Additional Rent, and Tenant shall have no obligation to reimburse Landlord for same. Landlord shall be responsible for the pro rata shares of the CAM Costs for those portions of the Retail Space that are unoccupied.