

The Benefits of Representation During Lease (Re)Negotiation

A Barclay Street Real Estate Brief



Executive Summary

There are several types of commercial leases and terms, but a common thread among them is that the devil is in the details. Commercial real estate lease contracts are notoriously tricky documents, and a good or bad lease can mean manageable versus inflated real estate costs or even the difference between success or failure for businesses. With so much riding on a single document, it's wise to consult a professional commercial real estate broker.

Many Tenants don't realize that a commercial real estate broker can also be retained for *lease renewals*. Tenant representation during lease renewal negotiations helps ensure that the terms are in line with the market and often leads to competitive concessions being received on lease rates and premises improvements. When the economy is soft, Landlords with near-term rollover are further motivated to lock-in Tenants rather than risk losing them. This is a critical opportunity to not only renew the lease, but *improve* the lease.

Access To Information

Landlords have unencumbered access to "best in class" market information, which can create an uneven playing field. Some examples of the type, quality and quantity of market intelligence a Tenant ought to have access to include:



MARKET ANALYSIS

Macro and micro economic influencers and their correlation to market trends.

Supply/demand trends specific to building locations, asset types and classes.

Trends for specific space sizes vs locations.

Rental rate and operating cost trends – current and forecasted.



MARKET COMPARABLES

Information on transactions recently completed by your Landlord and your Landlord's competition including the following deal specifics for each comparable:

Building location

Tenant name, size, floor and suite number

Rental rates achieved and any rent-free periods

Length of lease term

Leasehold improvement allowance or turnkey value

Other incentives

Understand The Landlord's Perspective

In order to understand where leverage exists, the metrics used by Landlords to calculate their financial returns must be understood. Given that several types of Landlords exist and their financial platforms vary substantially, Tenants need insight into how Landlords assess their economic positions. This will effect negotiations. Several key factors that should be understood from the Landlord's perspective in order to narrow down your lease options include: debt, interest rates, vacancy risk, income relative to a potential refinance and specific Landlord portfolio trends. When the numbers are seen from the Landlord's perspective, negotiations can then focus on specific points and move forward effectively.

Create Leverage

The key to creating leverage is understanding how the Landlord benefits from a Lease renewal. Pessimists will say that Landlords will only make their best efforts with regards to the rate and terms of the agreement, if and when they truly believe they may risk losing a Tenant.

The typical scenario is more mundane, in which Tenants are satisfied with their space and wish to avoid a costly move. For these reasons, Tenants are generally less aggressive in renewal discussions than when the initial lease was under negotiation. This can be a costly position, because without properly-focused dialogue or other options to fall back on, the common result is that existing Tenants are renewed at higher rental rates with fewer incentives (free rent and leasehold improvements) than a new Tenant may be offered. As a result, Landlords often realize heightened financial benefits, which includes avoiding the cost of carrying vacant space.

Tenant representation is a key element of getting the best lease possible. Without it the odds generally favour the Landlord.



THE LANDLORD

- Experienced team of industry professionals
- Leasing teams are expected to achieve highest rental rates possible
- Leasing teams negotiate leases for a living
- Maintains knowledge of the marketplace via Commercial Real Estate Industry connections
- Retains full transaction fee if Tenant is not represented



THE TENANT

- Often unrepresented in commercial leasing transactions
- Negotiates leases every three-to-five years
- Expert on their business, limited expertise in commercial real estate

Speed + Efficiency = Advantage

Once engaged to represent a Tenant in a renewal/extension discussion the commercial brokerage can typically get to the bottom-line with the Landlord much faster than the Tenant may otherwise, when acting alone. Choosing to retain commercial brokerage representation adds the benefit of speed to the competitive advantage.

Dispelling A Common Misconception

The fees for the services provided by the commercial brokerage are paid by the Landlords, who have a set budget to be paid out as commissions to brokers. This means that by retaining the services of a commercial brokerage, the Tenant is simply accessing "market fees" already set aside for services rendered by brokers, whether for securing new Tenants to fill vacancies or retaining current Tenants.

Summary

When a Tenant has entered into an agreement with a commercial brokerage for representation in renewal negotiations, the Tenant stands only to gain from this service.

Engaging a real estate specialist ensures that a company's interests are protected and that the right location at competitive terms are secured. As the saying goes, it costs more to obtain a client than to keep one. Understanding the math by retaining representation offers the smoothest path (re)negotiating a fair transaction.

Typical Renewal Scenarios

Tenant lease renewal WITHOUT REPRESENTATION



Tenant lease renewal WITH BARCLAY STREET REPRESENTATION

A Tenant with an approaching lease expiry is generally content with existing location and space.

Without a clear picture of the state of the local market and/or comparable space & location options, the Tenant goes directly to the Landlord and expresses desire to remain.

The Landlord draws up a lease renewal according to predetermined formulae for achieving building profitability within portfolio guidelines.

The Tenant receives a renewal offer specifying lease rate step-ups over the new term and a nominal allowance for fresh paint.

Unaware of rates and incentives offered by Landlords of nearby properties, the Tenant renews under the presented lease offer.

A Tenant with an approaching lease expiry is generally content with existing location and space but consults with a commercial real estate broker to gain a better understanding of local market conditions.

The broker presents the Tenant with an assessment of the current market value of the Tenant's current space based on a list of comparable local spaces, which are also available for lease, as well as an overview of leasing incentives being promoted in the local market.

Based on the market information and the Tenant's desire to remain in the current space, the broker is retained for representation in negotiating a market-comparable lease renewal.

Discussions shift from Landlord/Tenant to Landlord/Broker, allowing the Tenant to focus on core business while being kept apprised of the negotiating process.

Now aware of rates and incentives offered by Landlords of competing properties, the Tenant receives and accepts a renewal offer specifying similar rates, term and incentives according to what the current market supports.

The Tenant has incurred no additional expenses for retaining the services of the commercial real estate broker, while gaining both an understanding of the Landlord's position and peace of mind that an equitable deal was struck.