

# Commercial lease negotiations are part dance, part dogfight.

## How to gain the maximum advantage in negotiating a commercial lease with any Landlord.

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Whether you're moving into a new building with a new Landlord or renewing or renegotiating an existing lease, there's a time to dance and a time to dogfight. The secret is knowing when to sharpen your steps or your teeth.

So how do you gain the maximum advantage in negotiating a commercial lease with a Landlord? You've got to be able to do both, dance artfully and dogfight effectively, in order to gain the lowest rents, best terms and conditions and additional concessions in order to reduce your rent overhead significantly.

To achieve savings, every dollar of which falls directly to the bottom line as net profits, one must handle negotiations with any Commercial Landlord very wisely. You must perform significant, lengthy and proper due diligence and then negotiate decisively and firmly in order to gain the upper hand with a Commercial Landlord. But it'll save you lots of time, effort and angst to hire a tough, tested Tenant Representative to do the shopping and negotiating for your organization, acting as a buffer against savvy Landlords, Landlords' Agents and Property Managers.

If a new Tenant to a building gets a better deal than an existing Tenant obtains on a renewal, then the renewing Tenant has left a lot of money on the table. As surprising as it sounds, renewing Tenants routinely get shabbier treatment from their Landlords than brand new Tenants to the same building.

Why is this so?

A typical Commercial Landlord reaches out to a Tenant six (6) to twenty-four (24) months before the lease expires and seeks to renew the lease, often at a moderate increase, citing "inflation, higher taxes and other costs as standard policies" in the building. The Landlord positions itself as compassionate and giving, asking "merely" for a moderate increase, giving the impression that he or she has the upper-hand and the Tenant must agree to the terms being offered.



But that leverage has to be constructed by "going to the market" and seeking real proposals from real competing Landlords.

The key is to understand how, why, where and when a Tenant has leverage and then to use it effectively to secure a fair market deal based on today's market conditions. Here are four basic (but critical) facts you need to know:



But don't be fooled by the wolf in sheep's clothing.

Saying that your lease should be renewed at \$30.00 per square foot because the document you signed five years ago topped out at \$28.00 is as illogical as saying that AOL stock is worth \$100.00 per share now, because when you bought it fifteen years ago, you paid \$95.00 a share. Don't fall for the wolf's sweet talk.

Landlords rent to the market, whether you are renewing a lease in your current building or moving from Building A to Building B. Even in a Landlord's Market, a smart Tenant usually has more power and leverage than you might think.

Here are four basic (but critical) facts you need to know:

#### **FACT #1**

Landlords need to keep their buildings occupied. Day-to-day cash flows pay the Landlords' bills and provide net operating income (triple net rents minus the operating expenses/CAMs), which determine what a building is actually worth, whether a Landlord is selling or simply refinancing its property.

#### **FACT #2**

Small Tenants do matter to Landlords. In a major market like Metro Denver/Boulder, the average office space occupier rents 2,000 to 3,000 square feet. A common misconception is that Landlords don't really care unless you're a large Tenant. That's not true. Because less than 3,000 square foot Tenants are the lifeblood of most Landlords. Even in New York City, Mark Holiday, CFO of SL Green, the city's largest owner of commercial real estate, has publicly stated that, as a Landlord, his #1 priority is *retaining existing Tenants of all sizes*.

#### **FACT #3**

Losing an existing Tenant is usually expensive for an Office Landlord. A Landlord loses what amounts to twelve (12) to eighteen (18) months of triple net rent income if a Tenant (regardless of size) vacates its space. This is based on the vacancy period, marketing costs, free rent to a new Tenant, costs of build-out and the Landlord's credit risks. Understanding how much money is on the table for a Landlord is crucial to a Tenant's successful negotiation. This knowledge provides Tenants with power and leverage. Office Landlords need to keep their buildings occupied at any reasonable cost, so Tenants can and should demand – and win – better lease terms and conditions.

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#### **FACT #4**

Finding a new Tenant is expensive for Landlords. New Tenants typically receive several months of free rent, plus free or "turnkey" build-outs from Landlords eager to fill empty spaces. Smart Tenants translate these costs into a specific dollar amount, which is then used as the guideline for what a lease should cost, whether in your current building or at a competing property.

Once Tenants clearly understand these facts, they can truly take advantage of what's available in the Office Market at a given point in time. That said, most Tenants hate moving and Landlords, of course, know this. As a result, convincing a Landlord that you really will relocate if you don't get offered a fair deal is everything. So how do you do this?

If your lease is due to expire within six (6) to eighteen (18) months, depending on the size of your space, don't accept your Landlord's lease renewal offer, no matter how sweet it might first appear. If your Landlord keeps your rent stable or reduces it only slightly and also offers to repaint and re-carpet your offices, interpret it as a "tell," a signal that there is a much better deal to be won. A Landlord's first offer is rarely near its bottom line.

You or your professional Tenant Representative must go through the process of looking at and carefully evaluating alternatives actually available at other buildings in order to understand the market and to win the best possible offer. If your Landlord even suspects you won't move, then he or she has no incentive to give you a better deal. You must create real doubt to entice the Landlord to offer you the best terms to keep you in the building. And along the way, you might even find better space elsewhere for less.

*This is why lease negotiations are part dance and part dogfight with Commercial Landlords.* The right advocate, buffering you from the Landlord's "sweet talk," makes it easier for you and delivers more leverage to power your successful negotiations... the kind that will save you money now and for the long-term. Every dollar you can eliminate from your lease expense is a very valuable dollar, not of gross profit, but of net profit.

*William Gary, MBA, MIM, works in Metro Denver/Boulder. He's a highly experienced, savvy shepherd who gladly tends to and protects his flock as a tough, thorough Tenant Representative. Call him at 303-294-0277 to discuss your needs.*

