

Renewing Your Lease?

Don't Be A 'Captive Audience'

FOR COMMERCIAL TENANTS, THE BEST WAY TO UNDERSTAND HOW LEASE RENEWALS WORK IS TO LOOK AT HOW WIRELESS PHONE COMPANIES TREAT NEW CLIENTS VERSUS RETURNING CUSTOMERS.

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Phone companies follow a simple rule: New customers get all the good stuff, like free or discounted new cell phones and calling plans with millions of free minutes.

What do renewing customers get?

They get somewhere between nothing and far less than the new customer. In cell phone service, it's an outrage that a renewing customer doesn't get the same attractive deal as a new customer.

In real estate, a tenant that renews gets even shabbier treatment by their landlord. With a lease renewal, the financial future of a company is at stake, perhaps even its ability to viably compete.

A landlord may give new tenants free rent upfront, lower rent per square foot (than the renewing tenant) and the space built out for free.

The renewing tenant gets a kick in the head and a rent hike over his existing lease.

Here's another question for businesses that have a lease term expiring in the near future:

If you knew the manager of a particular supermarket, would you go out of the way to pay 20% more for your groceries at that store? This is the same way that renewing tenants allow landlords to treat them. It's amazing how many smart business people will choose to "roll over" on their expiring lease and not become market savvy because the landlord or managing agent "is very nice."

In fact there are three things that landlords can count on when it comes to lease renewals:

- Tenants don't like to move
- Tenants like to renegotiate the deal themselves
- Tenants don't realize that there's a way to get the same space for less

Landlords know this and love it!

There are, of course, many compelling reasons not to move. It's not only disruptive to business—"I hate boxes!"—it's also costly. Typical moving costs are \$4 to 5 PSF.

So, as they say at the Shakespeare Moving Company, "to move or not to move—that is the question."

Realistically, a company should only move if:

- The space is too large or small

- The Location is no longer good
- The Building services are unacceptable

So, if these factors don't apply to your situation, your next step should be to saunter down to the manager's office or the landlord and reenlist, right?

Wrong!

Too often, tenants like to renegotiate the deal themselves because:

- Landlords make them feel they'll take care of them
- Tenants don't want to upset their relationship with the landlord
- Tenants think they are good negotiators
- Tenants think they can save money on the broker's commission

Unfortunately for the tenant, but very fortunately for the building owner, landlords view their existing tenants as a "captive audience."

Remember how we said the cell phone companies work?

A landlord can set his watch by the fact that most tenants don't like to move and will contact him about renewing their lease. Landlords also know from experience that Mr. or Ms. Tenant won't pursue other options or get knowledge about the current office leasing market, and thus the tenant will have no leverage and is likely to agree to a modest rent increase.

Meanwhile, the landlord takes the commission he would have paid a broker representing you and charges it back as an expense, because a commission is factored into the rent, whether you use a broker or not.

If your rent is a major portion of your overhead, as it is in most businesses, the best way to approach renewal is with a market-driven strategy.

While that strategy stuff sounds a bit highfalutin', consider that all lease deals are based on what is happening in the market. While it may feel good to do the negotiations yourself and end up with a \$.75 PSF annual increase to your existing \$26 PSF lease, the current market may only be demanding \$22 PSF, and offering tenant improvements and free rent concessions.

So how does a tenant become educated about what's happening in the market?

A smart tenant will hire someone who makes his living knowing the market. But not just any broker. He hires a tenant broker who does not represent landlords, has no conflicts of interest, and will never work for your landlord or any other landlord.

The tenant rep broker will educate you about the market and negotiate deals in at least three buildings that are competitive with your building.

The fact is a landlord will only give a renewing tenant the same kind of deal new tenants get if he believes that you have alternative locations. When you arrive at the landlord's doorstep with your tenant rep broker, he will know you've done your homework and created options. He will know that he has to compete with those options if he wants to keep you in his building.

That's leverage!

To further put the landlord in a "hole," your tenant rep can convey to your landlord all the things you dislike about your present building. However, he can also convey that you are willing to stay if the landlord delivers a counter offer commensurate with the alternative locations he has brought to you

In the current market, this will mean a reduction in rent, plus tenant improvements plus free rent concessions equal to what a landlord would give a new tenant. And many times your tenant rep broker can negotiate the new term to begin upon signing so you don't have to wait for the old lease to expire.

It is smart business for landlords to retain existing tenants. The landlord saves downtime, lost revenue, marketing costs, demo and build out costs, etc., by negotiating to keep tenants who might otherwise leave.

As a negotiating strategy, many tenants in weak markets are having their tenant brokers approach landlords in some cases years ahead of the lease expiration to lock in a better deal for the long term.

But it all starts with a market-based strategy and a savvy tenant rep broker.

And the money you save is better in your pocket than in the landlord's!

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