

How To Take Advantage Of Today's Changing Market

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1 Know Your Market and Get the Best Lease Arrangement

If you reduce your corporation's office leasing costs by \$5 per square foot, have you achieved the best lease arrangement? No, this isn't a trick question. It happened to a corporation that wound up *paying approximately one million dollars above market* over a ten-year period.

Here are the problems. During the initial term, this corporation paid an above market rent because they neglected to identify the hidden costs of their lease, the largest of which was real estate tax escalations.

The tax base in the lease was based initially on a partially-assessed building. But once the building was fully assessed, the increases chargeable to the tenant resulted in exorbitant real estate tax escalations that became part of an above market base rent. This above market rent was then used as the basis for negotiating the second five year term, resulting in a new lease that cost the corporation one million dollars above market despite the \$5 per square rent reduction.



With real estate costs reaching as much as 40% of a corporation's budget, it is expensive to leave money at the negotiating table. By understanding an ever-changing real estate market, you can protect your corporation. This includes a comprehensive knowledge of what others are paying and what is included in their costs. Without this knowledge, your corporation must retain a non-conflicted expert.

Soft market conditions prevail throughout much of North America. Thus it's a *great time to be a tenant!* This won't last. Markets have

generally bottomed out and will tighten over the next 4-5 years.

Here's a list of lease inducements which some landlords offer either individually or as a combined package of two or more:

- Amenity packages such as on-site fitness facilities, shared conference rooms, shuttle bus, etc.
- Abated or capped escalations
- Buy-out of existing lease
- Cash allowance
- Design/Space Plan Allowance
- Early lease renewal at a reduced rate

- Expansion Options
- Contraction Options
- Cancellation Options
- For full building users, rental rate reduction in building financing costs
- Free or reduced base rent
- Parking packages – indoor, outdoor, free, reduced rate, reserved, above standard ratio
- Relocation allowance
- Sign privileges
- Temporary Space
- Upgraded tenant improvement allowance.

2 Take Advantage of Soft Market Conditions

Creating a win-win situation for your corporation and the landlord is the key to taking advantage of soft market conditions now, even though your lease does not expire for several years. This is typically achieved by a lease extension and/or expansion. If your corporation can agree to one or both and your local market conditions are softer now than when you signed your lease, then *your real estate costs may be reduced.*

To determine if your lease is above or below market, contact an *objective*

tenant representative for a current market comparison of your lease. Many objective tenant representatives provide this service free and without any obligation in hopes that your corporation will enlist their services if your lease is above market. They hope that if your lease is below market, you will remember who wisely advised you to stay the course. Go to <http://www.itrarealtygroup.com> to locate an objective tenant representative in your market.

Comparing your current office lease(s) to the market is useful for future planning including expanding, contracting, renewing, relocating, merging offices, etc., and could help develop a sound business plan for these important and costly decisions.

Here is a well-kept secret that most large real estate firms don't want you to know: If your corporation hires a real estate firm that also represents office buildings that your cooperation

3 An Exclusive Tenant Representative Has No Conflicts

may consider, your corporation will not have an advocate representing your leasing needs at any of these buildings!

Conflicts are created when agents represent both the tenant and landlord (or the buyer and seller). This is called dual agency in most states. A disclosed dual agent owes equal loyalty to both sides, but neither has the benefit of the broker as an advocate. Instead, the dual agent owes the tenant and the landlord good faith, disclosure, loyalty, competence and confidentiality. Since the broker cannot possibly provide full client-level service to both, each client must understand the services they will and will not receive when consenting to dual agency.

To make sure you don't hire a dual agent, ask the broker(s) you interview to provide a list of the building their firms represents. If your firm considers leasing space in any building on that broker's list, hire another broker!

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