

Lease Negotiations in a Down Market: How Tenants and Landlords Can Benefit

By Gregory P. Schenk

In many areas around the country, the office market is experiencing its highest vacancy level in years. Columbus is no exception. The situation is one that both tenants and owners of commercial real estate can capitalize on.

For tenants, it's a great time to brush up on your understanding of your current lease and how the cost stacks up with others in your building and submarket. If you need help wading through the options, a good tenant representative broker can help. They will ensure you and/or your clients are educated about the available opportunities, which can improve your bottom line for years to come.

Restructuring your current lease when vacancies are high, as they are now, means greater savings. For example, take advantage of early lease renewals or relocations to secure space at below-market rates.

In the current climate, some tenants who had been negotiating lease renewals directly with their landlords are learning that tenant representatives and brokers can help them land better terms. Such professionals can develop a strategic plan for the business and find ways to save money in areas such as discounted base rent, capping controllable operating expenses, increased build-out allowances, free rent, tax incentives and more.

Do Your Homework

Understanding the Central Ohio commercial real estate market is key to knowing which landlords can offer some or all of these incentives, especially as build-out costs increase due to soaring prices on steel, cement, copper and other building materials.

When considering potential locations, know which buildings are ready to move into immediately, which ones need minor build-out and which need major renovation. Tenants, with their agents, should study each building in the market area and compare those that can handle tenants with few

improvements against those where landlords/owners have deep enough pockets to handle high-cost renovations. Some landlords can pay for the makeover, while others can provide lower or free rent to lure tenants to their properties.

The bottom line is that tenants have never had it so good. In the last year, some clients have saved from 10 percent to more than 20 percent—with no end in sight in many markets around the country.

Advice for Landlords

Every landlord analyzes each potential lease on the following items: a business's credit, the amount of space an owner wants to lease, the lease term (three to 10 years, in most cases) and cost to build out that space.

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So what does a landlord/owner need to do in this down market?

First, educate the broker and prospective tenants about your properties and what the competitive edges are, if any. Are the buildings well-managed, clean, well-lighted, secure and handicapped-accessible?

How about the floor plans: Are they in a computer-aided design (CAD) format, easy to read, and easy to subdivide for various sizes of tenants? Most cities have many small tenants and fewer large ones, so spaces that can be subdivided are important.

What kind of amenities does the building have, if any? Shared conference rooms, Wi-Fi, plenty of parking for events, cafes,

etc. are at the top of many tenants' wish lists.

Tenants' needs and goals will ultimately determine what type of property best suits them. Building owners who have easy-to-read floor plans and brochures make things easier for everyone. Having a space planner who can determine what the tenant really needs in terms of square footage, image and other criteria also helps a great deal.

Getting a floor plan priced out correctly and in a timely manner is also important to analyze overall cost. Finally, knowing each municipality's permit process and timing will help or hinder many site selections, as many tenants procrastinate and don't plan far enough ahead to correctly perform a search and related negotiations.

Lease negotiations in a down market are all about tenants' credit, learning what their short- and long-term goals are, and educating them about the options available to them, whether it's renewing or restructuring a lease early, relocating, or utilizing one of the many incentives landlords are offering in an attempt to fill high vacancies.

The landlords that are successful in this area will then be able to either refinance the property at a great low interest rate that is locked in for a longer period of time, or sell their buildings with higher occupancies to investors who are still looking for good investment projects.

The tenants that are good at putting together a strategic plan and listening to and working with their trusted advisors will find great success for 2009 and beyond even in this down market.

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