



Have You Thought of...

Vol. 1, No. 4

REDUCING OCCUPANCY COSTS

Tenants who negotiate directly with landlords are unable to take full advantage of reducing lease costs and increasing profitability.

Tenant representatives are able to provide clients with market data and unbiased terms of recent transactions. Market comparable research shows that tenants who are represented professionally save 10% - 20% in total occupancy costs over the term of their lease, compared to tenants who do not seek representation.

Experienced tenant advisors leverage the market and level the playing field with the landlord. They are aware that landlords do not respond with competitive terms until the tenant has offers from other landlords and has a viable alternative to relocate. Even if the tenant's goal is to stay in the space, engaging an advisor simplifies the renewal process and generates the leverage needed to negotiate a fair transaction.

Renewals should be considered as critically as relocations.

A company's space needs change throughout the life of the company. Growth or reduction in headcount, a change in company processes or work flows, or a change in the company's structure can all cause the existing space to no longer fit the needs of the firm. As businesses expand into conveniently located adjacent space, efficiencies and productivity may deteriorate. Tenants must consider these issues when evaluating a renewal strategy.

Even a tenant who is planning on remaining in their existing location should use a tenant representative to negotiate on their behalf. ***Landlords negotiating directly with tenants have no incentive to provide tenants with aggressive transaction terms; they will only cite the transactions favorable to their position. To get a fair picture of the market, a tenant needs an advisor to represent their interests only, one who will provide transactions favoring the tenant's interests.***

Finally, the renewal process should be started with sufficient time to leverage the market, evaluate proposals, negotiate with the existing landlord and construct any necessary improvements.

Landlords know that as the lease expiration date nears, the likelihood of a tenant finding alternative space in a short time is slim. Therefore, unless a tenant has sufficient time to negotiate a renewal, the landlord gains the advantage at the negotiating table.

Tenants fear the rental rate will be increased if they engage a representative.

A commission is factored into the quoted rental rate, regardless if it is a new transaction or a renewal. Additionally, in the Standard Multi-Tenant Office Lease AIR Form, Section 15.1, Landlords agree to pay commissions on renewals, expansions and options. Therefore, if a tenant does not utilize a specialized tenant advisor to represent their interests, the landlord or landlord's broker retains the entire commission, and the tenant's interests are not professionally represented.

Tenants benefit from the specialized representation of a tenant representative real estate professional.

Engaging a specialized tenant representative real estate professional ensures that the terms of a lease, renewal or renegotiation are reflective of market conditions. If the advisor is not exclusively representing the tenant, he or she does not have incentive to push for the most aggressive transaction possible.

An experienced tenant representative uses the proposal process as a time to identify key differences in building alternatives. Not only should the rental rate and tenant improvement allowance be negotiated, but so should items such as operating expenses, calculation of the size of the premises, subleasing and assignment terms, and restoration of the premises. It is during the proposal process that key terms are negotiated; so when the tenant chooses a location and leases are drafted, there will be no surprises in the lease document.

For additional information on these and other current market trends, contact us at CM Realty:

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"Have You Thought Of..." is a publication of CM Realty, Inc. highlighting current issues in the real estate industry.

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