

Real Estate Strategies

For Tenants, It's a Great Time To Negotiate Better Lease Terms

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GOOD NEWS! NOW IS THE BEST TIME IN THE LAST 20 YEARS TO BE A TENANT. THE COMMERCIAL REAL ESTATE MARKET IS A SLOW MOTION TRAIN WRECK—AND THE LANDLORDS SEE IT COMING.

Landlords also see the downward pressure on their tenants. It is no secret that tenants continue to face dwindling markets, stock prices crashing and their business horizons in doubt!

Many industry experts wonder if the commercial market is due for a crash. While few predict a downturn of the magnitude of the recent debacle in residential real estate, the pain for many landlords already is real and there is no better time to try to:

- Negotiate better lease terms for your present lease
- Upgrade to better quality space by moving to another building
- Reduce or expand your space at advantageous terms

Bank Crisis Impacts R.E.

The banking crisis already is having its effects on those landlords who have reached the “reset” on their non-amortizing balloon commercial mortgages, which must be renegotiated every few years to market rates. This impacts tenants in affected properties with diminishing rent rolls.

While interest rates are relatively low, based on historic standards, the qualifications to refinance the mortgage may increase. Recessionary pressures on businesses have led landlords to reduce their effective rents. These lower rent rolls may result in some landlords being unable to qualify to refinance their existing mortgages. This



unanticipated “cash call” may have some of the weaker landlords scrambling for capital at a time they can least afford it.

The caveat is that opportunities in this economy may vary from market to market and building to building.

Some landlords—generally those with stronger portfolios—are better positioned to do what it takes to keep tenants. They will negotiate lower rentals, escalations, new construction allowances, free rent, lease extensions and space reductions to encourage early renewals. This is where exclusive ITRA tenant representatives, who never represent landlords, can use their unconflicted, objective market knowledge to negotiate better terms for office tenants. Here are a few examples of what ITRA offices across North America are negotiating on behalf of tenants:

ITRA's Andrew Stein and Bert Rosenblatt have just completed a renewal of lease for a client in Manhattan. Negotiations started off 12 months ago at \$73 per square foot, which at the time was \$7 per square foot less than the asking price. As negotiations progressed, the landlord got more and more aggressive. Now 12 months later the transaction has just closed at a \$53 per square foot rent for 15 years with the tenant securing 4 months free rent and even securing exterior signage on the building, a rare and valuable asset in NYC.

On the West Coast, Mark Rosen, ITRA San Francisco, reports that landlords in his market are literally ripping all over themselves to compete for credit tenants. Mr. Rosen started a search for a client for new space in the Downtown CBD many months ago and received a proposal for full floor of 15,000 square feet in a Class A

building at around \$40 per square foot.

By advising his client to wait, Mr. Rosen was able to revisit the same property six months later, securing a letter of intent from the landlord for \$29 per square foot for the same space.

This is not all.

Mr. Rosen also was able to secure a bundle of incentives that included the use of a 1,200 square foot storage and work shop thrown in the deal for free, 2 months free rent, a turnkey construction allowance valued at \$25 per square foot, expansion rights, and even an option to reduce the amount of space early if the tenant's needs change during the lease term.

Ross Selinger of ITRA Long Island had to take a more aggressive approach to secure a reduced rent for one of his clients. Selinger was able to negotiate a reduction in rent from \$36 per square foot to \$26 per square foot. His strategy was to survey the market with his tenant, forcing the Landlord to compete.

Only an experienced tenant representative who is out there every day can understand the rate of change and exactly how it can be used to the benefit of office tenants. At ITRA, exclusive tenant representation is not just our business, it's our *only* business.