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## Focus

# Tenant Issues

## Do you need a broker for lease renewal?

The abbreviated answer is: absolutely! Most prudent business people would not prepare their corporate financial statements, submit their corporate taxes or address legal matters without professional counsel. The same should be true when considering real estate decisions, decisions that can have a substantial impact on a firm's financial performance.

In fact, real estate is usually the second or third largest budgetary line item for most companies. For this reason, real estate decisions, including what appears to be a relatively simple lease renewal decision, must be made carefully. To highlight the financial significance of real estate decisions, a 20,000-square-foot office tenant in the Denver market today is faced, on average, with pre-tax real estate occupancy costs of over \$4 million during the next 10 years (assumes \$20 per sf effective gross rent). A meager 10 percent reduction of these expenses yields \$400,000 in pre-tax savings. The savings are just as large (relatively) for smaller firms. A 2,000-sf tenant using the assumptions above can realize \$40,000 in savings over a 10-year occupancy window.

Many tenants do not understand the substantial costs landlords incur when losing an existing tenant through non-renewal of their leases. Some of the landlord-incurred costs include marketing expenses, lost revenue (that can never be recaptured), and substantially higher commission and tenant finish



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expenses. Professional real estate counsel can help their clients understand and quantify these expenses in the current marketplace and provide their clients leverage when negotiating with landlords. This leverage allows the well-informed tenant to realize and benefit from some of the costs landlords would otherwise incur if they lost your tenancy.

By simply informing your landlord that you have engaged professional real estate counsel to assist you in either renewing in place or relocating to other premises, you tip the negotiating scales in your favor. Landlords now realize that you have access to current market data, are ready and willing to relocate (even if you secretly prefer to remain in your current location/building), and that other properties (and possibly other submarkets) are now vying for your tenancy. The result is that you place your landlord in the position of now competing for your extended tenancy. Faced with competition that previously was nonexistent, your landlord's negotiating positions can change dramatically. All this adds value to

your firm.

During any real estate transaction, including renewal, tenants must remember that they are negotiating against the building's leasing and property management teams, people that were hired by, work for, and are paid by the building's owner. Tenants should take caution. These are often multimillion-dollar decisions. Questions: Whose interests are primary? Whose agenda is paramount? Whose interests are the landlord's team seeking to protect? When millions are changing hands, wouldn't it be nice to have an expert on your team, someone representing your interests, someone that levels the playing field?

By starting the process of either renewing or relocating to other premises early, the tenant gains control, additional leverage and options. Most lease renewal clauses require tenants to provide at least six months advance written notice to exercise their "right" to renew. Clearly, the process of defining a company's real estate needs, developing strategies to optimize the performance of real estate in their strategic business plan, and engaging the market to uncover other opportunities should commence well in advance of the lease renewal notice expiration date.

Tenants should understand that the Denver market has changed dramatically since their lease was executed three to five years ago. Other properties may now better "fit" their real estate

needs (image, location, functionality, accessibility, parking, efficiency, economics, and so on) today than when they last considered real estate options. Options other than leasing such as ownership, build-to-suits, and "synthetic leases" may now be more advantageous. Qualified real estate counsel can assist companies in quantifying and qualifying their strategic real estate needs, both current and projected, and develop strategies that further their business objectives. Hiring qualified professional real estate counsel early in the process provides tenants the opportunity to make well-informed, timely, financially sound business decisions. The result impacts their firm's bottom line directly in terms of reduced real estate costs and indirectly through substantial time savings, time that is better spent on core business activities.

In a tightening market, greater numbers of landlords are reluctant to pay fees to a tenant's real estate representative during renewal. In this case, tenants must weigh the value added by their consultant and determine if their services warrant compensation. Remember, a 10 percent savings for a 20,000-sf tenant easily can yield \$400,000 in savings in a 10-year occupancy window. In addition to time saved, the financial benefit is substantial. Therefore, the more appropriate question changes from "Do you still need a broker?" to "Which real estate consultant can best add value to your firm?" ▲