

# views you can use

Commercial Real Estate – By Stephen A. Cross, CCIM



## It's Always a Tenant's Market

**A**lways? Yes, *always*. While this may appear to go against the grain of popular thinking, it has been my experience that below market leasing opportunities exist in every economic cycle – providing you are thoroughly informed and properly prepared. The following insights will take some of the mystery out of the process of locating space and negotiating commercial leases, and offer strategies to help make your next lease better than your last.

**LANDLORDS HAVE ADVISORS – SO SHOULD TENANTS:** Because tenants and landlords have opposing interests, and the amounts of money at risk in even the smallest of commercial leases can be significant, negotiations for real property are adversarial. However, that does not mean they must be confrontational. Recognize this and consider retaining an experienced real estate advisor to protect your interests.

**ASK PROBING QUESTIONS:** Commercial leasing comparables are proprietary and difficult to verify. So ask the various listing agents questions designed to uncover the landlord's true sense of urgency, such as: "How long has the space been available?" "Do you anticipate additional vacancies, and when?" "What incentives are being offered?" And "What is the lowest price you have leased space for in the last year?" While the terms others *may* have agreed to should not be used to determine the amount you would be willing to pay, these questions will demonstrate that you mean business.

**MACRO VS. MICRO:** Market research reports reflect the average prices purportedly paid within a market segment over an earlier period of time without regard to negotiated concessions. Therefore, using them as a basis to make leasing decisions - *macro thinking* - can result in overpaying. A far more accurate method is to focus on current availabilities, including subleases, within individual buildings - *micro thinking* -, as prices, terms and incentives for similar space, in similar buildings, can fluctuate widely. So, if you want to save big...think small.

**CAST A WIDE NET:** To help generate competition for the income stream your tenancy represents, make certain listing agents and landlords understand that you are considering a broad range of buildings, but do not disclose specifics.

**SO MANY SIGNS...SO LITTLE INFORMATION:** Almost every building has an "AVAILABLE" sign somewhere on the property, but not all of these buildings have space for lease. In many instances, listing agents utilize inquiries generated from these mini-billboards as a means to identify prospective tenants for their other listings.

The most efficient, effective and economical way to assemble reliable information about vacancies is simply to ask your real estate advisor; who should have access to details about available spaces, current and historical pricing, and comparative market data. Learn more about this subject in my article "Selecting Your Team of Advisors", available at [www.crossrealty.com](http://www.crossrealty.com).

**TARGET LANDLORDS WITH THE GREATEST NEEDS:** For most landlords facing prolonged vacancies, the option of granting discounted rental rates and generous concessions in order to sign a lease *today* is usually preferable to waiting for another prospective tenant to surface who may be willing to pay the asking price. Note that this is true only until the vacancy rate drops to an acceptable level, at which point prices will be raised until the market resists.

**DON'T STOP LOOKING:** Continue to identify suitable properties throughout the entire negotiation process. If time is short, negotiate simultaneously on multiple spaces. Having viable back-up sites gives you the best possible bargaining leverage – the ability to walk away from an indifferent or uncooperative landlord or agent. Also, don't think for a moment that the landlord is negotiating only with you. Unless agreed in writing to the contrary, and until a lease is signed and money changes hands, either party may generally walk away from the transaction without incurring monetary penalties.

**NO REASONABLE OFFER IS EVER REFUSED:** Would it surprise you to learn that landlords do not expect to realize their asking price? The advertised rate is used to establish the landlord's expectations, which most real estate agents and brokers are hesitant to undercut. The reality of commercial real estate is that supply and demand changes daily; and an offer that was rejected on Friday may be welcomed on Monday. Ultimately, what's *reasonable* is based on how much the tenant is willing to pay - and the amount the landlord is prepared to accept - *at that moment*.

**CLOSING THOUGHTS:** Savvy tenants make below market deals every day and in all types of economic cycles - they're just not publicized. Whether you pay a little or a lot for space depends as much on your tenacity at the negotiating table as on your understanding of prevailing market conditions, and your ability to identify landlords that have needs greater than your own. ■

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