

# How to Save Up to 36% on Your Next Lease

**R**eal estate is generally a company's second largest operating expense, after employee salaries and benefits. It's also the area where most business owners overspend, generally without being aware of how much they could have saved to lease the same space, in the same condition, and in the same building. The following discussion focuses on some of the variables common to most commercial leases. Taken together, they can serve to significantly lower the *effective* rental rate ... reducing the overall costs of occupancy.

**RENTAL RATE.** Advertised rates are typically 5% to 15% higher than the landlord will accept; as in any high-stakes negotiation, landlords seldom start with their bottom line price. When discussing price with listing agents, always refer to the landlord's "asking" rate; inferring the price is negotiable.

**ESCALATIONS.** Minimize rate escalations by fixing the increase to a nominal amount and/or postponing them as long as possible.

**FREE (ABATED) RENT.** Negotiate one month of free rent for every year of the transaction (an 8.33% discount), and never agree to amortize "free" rent over the lease term. If no incentives come with a longer term, opt for the shortest term possible.

**RENEWAL OPTIONS.** Accomplish longer lease terms through renewal options which provide flexibility; and an opportunity to negotiate additional free rent and other concessions throughout your occupancy. Also, make every effort to avoid option rates tied to the then-prevailing market rate. Why? Because market rates are subjective opinions of value, and do not reflect the incentives or inducements often required to make arms-length deals. As a result, this number will always be high, favoring the landlord.

**TENANT IMPROVEMENTS.** On new space, tenant improvement ("TI") allowances can vary widely, and generally increase with longer lease terms. On second generation (previously occupied) space, the major costs

of improving the space have already been incurred. New carpet and paint are typical renovations landlords expect to make. Irrespective of the improvements required to make a space suitable for your business, insist that the space be delivered in a turn-key condition ... and at no charge to you.

**CONTROLLABLE EXPENSES.** Insist that the landlord take reasonable steps to keep operating expenses as low as possible, after all, these costs are generally passed on to the tenants. A 3% cap on controllable expenses will help ensure the landlord is diligent.

**BASE YEAR.** If the lease rate includes the operating expenses of a building (property taxes, casualty insurance, common area maintenance, utilities, janitorial, and the like), insist on a Base year as far into the future as possible; and never accept the preceding year as the Base year.

## 7 Essential Negotiating Tips

**1. PLAN AHEAD.** Make time your ally by starting the search for space six to nine months prior to the date it is needed.

**2. EVERYTHING IS NEGOTIABLE.** Leasing agents and property managers use terms like "standard" and "typical" when referring to rates and concessions. In commercial real estate, every term and condition is negotiable - nothing is standard.

**3. COMPS ARE NON-EXISTENT.** Because information about completed leases ("comps") is generally proprietary, there are no databases available to verify comparable transactions.

**4. NOT ALL LANDLORDS NEED TO LEASE SPACE.** The greatest concessions will likely come from landlords who have the most urgent needs. Target landlords with a history of granting generous inducements, looking to sell, or those with high vacancy rates; and make every effort to determine if vacancies are anticipated. Don't be afraid to ask probing questions.



**5. CREATE A PAPER TRAIL.** When it's time to make a proposal, submit terms and conditions in writing. Include a reasonable acceptance date after which the proposal automatically expires, and insist on written responses.

**6. MUMS THE WORD.** Never discuss your budget, circumstances of your business, or other buildings under consideration with the landlord's agents. Unwitting disclosures will likely create leverage for the landlord and be used against you at the bargaining table.

**7. RE-THINK DOING IT YOURSELF.** The leasing of commercial space is a time-consuming and complex process, consisting of many interrelated variables. Whether you overpay, or are able to negotiate below-market terms, depends on your preparation and understanding of the nuances of the *entire* process. Landlords have advisors to protect their interests ... *so should tenants.*

**SUMMARY.** Every dollar saved in unnecessary operating expenses is a dollar that can be shared with employees, used to purchase equipment, or distributed to stockholders. Because landlords are the most accommodating *before* you become a tenant, make certain to recognize and capitalize on every possible leasing concession; and anticipate and negotiate protections within the four corners of the lease. Remember, for the fully-informed business owner, facility executive or corporate decision-maker, it's *always* a tenant's market. *SAN*

Stephen Cross owns CROSS Commercial Realty Advisors and counsels business owners, facility executives and corporate decision-makers on ways to acquire or lease property at the lowest cost and most favorable terms. He may be reached at (480) 998-7998 or [steve@crossrealty.com](mailto:steve@crossrealty.com).