



ORANGE COUNTY BUSINESS JOURNAL

Renewing your office lease: Did you really get the best deal?

In today's real estate market, many tenants find themselves at the tail end of an office lease which they signed in the late 80's or late 90's when the market was significantly different than today. Most of these companies are paying well above what a new tenant coming in off the street would pay. As those leases come closer to their expiration, the Landlord will approach the tenant to renew their lease. For the tenant whose space is adequate, renewing the lease is the most practical and cost efficient option.

The renewal avoids relocation costs and the time consuming relocation process which can be disruptive to a company's daily business. If the Landlord offers a new rental rate which is a reduction from the existing one, and consistent with today's market rates, the tenant will be inclined to sign on for a new term.

In many cases, the Landlord may be aware of a tenant's desire not to relocate and may not be as aggressive in reducing the rent. Some tenants negotiate with the Landlord directly and ask that their rent be reduced to the current market rate. This type of negotiation generally yields a reduction in the rent and if all things are equal, the tenant will ultimately stay in their existing space.

However, if you understand the Landlord's goals and objectives, as well as the economics of your rent, you will agree that the renewal rate for an existing tenant should be well below the current market rents. Until recently, renewing your lease and determining what the new rate should be was based solely on the market rate and ultimately, on the tenants willingness to relocate. While these factors are

still considered in today's renewals, sophisticated tenants realize that in order to truly receive the best deal, other factors must also be considered. This process involves the assistance of professionals whose concern is solely for the tenant. THE SAYWITZ COMPANY, one of the leading tenant representations firms in the country, has developed a new and innovative process for analyzing lease renewals. Their process includes factors that, to date, have not been accounted for by tenants or other brokerage firms in determining what a tenant's renewal rate should be.

"You have no idea what to negotiate for if you don't know what the Landlord's bottom line is. Our financial analysis incorporates not only the tenants' costs and alternatives, but the Landlord's exposure and income as well," said Barry Saywitz, President.

The theory behind this new approach is that while it is still important to take into consideration the current market conditions and the tenants alternatives, one must realize that if the tenant moves, the Landlord will incur substantial costs that he would not be exposed to if the tenant renews. If the Landlord is successful in renewing the tenant, he will avoid the following costs:

- The downtime of finding a new tenant which can be as long as a year or more.
- The extensive improvements which a new tenant would require.
- Any free rent, moving allowances and/or other concessions which might be required to lure a new tenant and;
- The time and expense associated with marketing the now vacant space.

These costs can, and in most cases do, add up to a substantial expense for the landlord, adversely affecting his cash flow. Other factors, to be aware of, are how such potential vacancies affect the Landlord's ability to refinance or sell the building. Once the dollar value of all of these factors are taken into consideration, the determination is that the renewal rate should be well below the current market rate.

THE SAYWITZ COMPANY recently completed a study that analyzed companies who have renewed their leases directly with their landlords without representation. The rental rates of these leases were then compared to those negotiated by THE SAYWITZ COMPANY, on behalf of their clients, employing their renegotiation strategy. The results of this survey were astounding in that the companies who negotiated themselves, whose negotiation was based on market rates, were able to achieve a rent reduction which averaged 3-8%. THE SAYWITZ COMPANY's clients received an average rent reduction of 11-19%. Additionally, as is customary in the industry, THE SAYWITZ COMPANY's commission is usually incorporated into the final lease terms and paid for by the Landlord. This allows the tenant to take advantage of their services at no direct monetary cost to the company.

"By analyzing the costs and expenses to both the tenant and Landlord, the tenant is able to determine what the Landlord's bottom line is and negotiate towards that point. This translates into the difference between getting a moderate rent reduction and knowing you received the best deal possible," said Saywitz.

This renegotiation process has been taking place all over the country and can occur up to two years prior to the lease expiration. The tenant must be willing to extend the lease beyond the existing expiration in order to receive the rent reduction. THE SAYWITZ COMPANY's unique innovative analysis and approach is on the cutting edge of commercial brokerage for the 90's. The traditional brokerage companies whose focus has been on representing landlords and developers, do not perform this type of analysis. Even if they did, they could not use it to the tenant's best advantage because of their relationship with landlords.

As the real estate market continues to soften and rents begin to slowly decrease, the value of having a sophisticated broker to represent the tenant's interest is increasingly necessary. THE SAYWITZ COMPANY's exclusive tenant representation services and their technical, financial analysis help to ensure that the commercial office tenant achieves the best transaction.

Are you
thinking of
renewing
your office
lease by
yourself?
Think again!



THE SAYWITZ COMPANY

4740 VON KARMAN • SUITE 100
NEWPORT BEACH, CA 92660
949.930.7500

4660 LA JOLLA VILLAGE DRIVE • SUITE 500
SAN DIEGO, CA 92122
858.535.8231

WWW.SAYWITZ.COM

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consultation and lease analysis.*