



## Hard times mean lower rents for businesses

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*Commercial real estate brokerage Saywitz Co. is a tenants' rep., helping businesses find space or negotiating with their landlords. The Newport Beach firm operates throughout Southern California and has been involved in transactions nationwide.*

*We asked company President Barry Saywitz how the current economy is impacting tenants ...*

**Us:** How have lease negotiations changed in O.C. over the past two years?



**Barry:** Lease negotiations have changed dramatically over the past several years since the economy has struggled and the real estate market has declined. These negotiations have given tenants much more power and leverage in negotiating with landlords as they have numerous options available to them in the marketplace, and landlords have an increased desire to keep existing tenants and their buildings full.

The benefit to tenants in this scenario is obviously that they have increased ability to negotiate more advantageous terms and conditions. The detriment is that there is a

significant disconnect between landlords and tenants and their perception of what is realistic and fair.

On the one hand, there are landlords who are unrealistic about the current market and would like to hold to yesterday's negotiating posture, which may result in no transaction. The converse is that you have tenants who are looking for extreme deals and believe that every property is distressed and that every landlord should negotiate for 50% less than what the previous prices were.

As the market stabilizes going forward, we hope to see less instances of disconnect between landlords and tenants and more instances of both parties working towards a mutually beneficial transaction, which will increase the number of transactions in the marketplace – a win-win for all.

**Us: Are most tenants trying to downsize their space in this economy?**

**Barry:** We have found that tenants are willing to keep the same size of space provided that their cost for renting or operating that space is reduced. In many instances, the cost associated with relocating outweigh the savings of downsizing the space, in which case a restructuring of their existing lease at a lower cost is beneficial for both the tenant and the landlord.

**Us: What are landlords doing to keep tenants?**

**Barry:** Smart landlords are doing whatever it takes to keep their existing tenants happy within reason.

This is done through a combination of increased customer service and property management to ensure that the tenants that are remaining within the landlord's portfolio are happy and that their needs are addressed. In addition, from a financial perspective, landlords are willing to negotiate more creative terms and conditions and restructure the financial terms to accommodate their current tenant's short term objectives.

Hopefully, the landlord (who made accommodations for their tenants in difficult times) will receive respect from its tenants, and they will continue to want to work with that landlord in the future.

While not every accommodation produces the desired results and not every tenant is deserving of concessions, landlords who make smart business decisions and provide short term concessions hopefully will reap the benefits in the long term .

**Us: What are they doing to lure tenants from the competition?**

**Barry:** Creative landlords are offering all types of incentives to both the commercial real estate brokerage community as well as tenants in the marketplace. These incentives range from increased broker bonuses to broker parties and functions

to gift certificates and travel vouchers in exchange for bringing new tenants to a project. Some landlords even offer cash or gift certificate incentives for brokers who show their properties to create additional exposure for available space.

As for the tenants, the concessions range from free rent to reduced rent to additional tenant improvements to moving allowances to including furniture or phone systems in the space. Landlords are also offering more flexible lease terms to accommodate the tenant's future growth and short term needs.

**Us: How common is it for tenants to buy at today's lower prices?**

**Barry:** While the decreased pricing in the marketplace certainly provides much better opportunities for tenants to purchase buildings, the current economic environment creates additional issues as well.

Financing is at an all-time low and prices are at a low for the last 10 years, both of which bode well for encouraging a tenant to buy rather than lease.

However, the fact that rental rates are also at an extreme low and concessions are available, many tenants often compare leasing to purchasing and ultimately elect to continue to lease.

For those companies that have available cash and good credit, there are extremely great deals to purchase buildings.

**Us: What are the benefits to buying versus leasing commercial space?**

**Barry:** You are in control of your own destiny and you are your own landlord. Secondly, you can fix a mortgage for the long term and control your expenses. Third, you have the ability to create value, equity, and upside should the market improve. And fourth, you have the opportunity to take advantage of a very soft real estate market and aggressive financing options available to you.

On the other hand, you are restricted in the event of growth and should your business or space requirements change in the future. You are now locked into a building that may not be easily sold or liquidated in the short term until the market changes.

For those tenants who have flexibility or cash issues, leasing is certainly the preferred option.

**Us: What's your best advice regarding lease negotiations?**

**Barry:** Begin to address and analyze your options early so that you are not left with an expiring lease and no opportunity to negotiate properly. Most importantly, seek the advice of qualified real estate professionals who are experts in not only the marketplace but in lease negotiations.

Many tenants and business professionals who negotiate contracts for their own business on a daily basis believe that since the market is soft that they have the ability to negotiate for themselves and receive concessions. The answer to this is that there are concessions available. However, if you are not doing it every day and you are not an expert in the field, then you don't know what to ask for nor do you know the actual amount of concessions that might be available.

In addition to the rent, which is always the most important factor, there are a number of other items that can be negotiated that have financial impact on the company both from a monetary stand point and from flexibility stand point. By hiring a real estate professional to represent your interests and assist you in providing you with information and negotiating expertise, you will protect your business for the future and maximize the results