



# ***GAINING THE UPPER HAND IN BUSINESS REAL ESTATE***

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***SHIFT POWER IN YOUR FAVOR WITH A TENANT/ BUYER ADVISOR***

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## **W** **HY USE A TENANT/BUYER ADVISOR?**

Running your company is your primary role and what you know best. What about leasing or buying commercial real estate? It is probably something you do only a handful of times in your business career. Landlords and property listing agents, on the other hand, do it day in and day out. Do they have an unfair advantage? You bet they do. So, how do you level the playing field? You engage the services of a qualified tenant representative (a.k.a. tenant advisor, tenant rep or buyer's agent). These are commercial real estate agents who specialize in representing tenants and buyers, not landlords or sellers. They provide objective, conflict-free advice, minimize your cost of occupancy, and mitigate risk associated with your real estate decisions. A tenant advisor who is involved with the leasing marketplace on a daily basis knows not only what is available, but also what landlords are willing to do in terms of rental rates, tenant improvements, concessions, and a host of other factors. Advisors who know the details of these prior transactions have invaluable ammunition for negotiations – details that are not available by simply asking landlords what they are willing to do.

## **WHAT ABOUT THE COST?**

Many tenants fear that by engaging the services of a tenant representative they will end up having to pay more in rent so that the landlord can pay the tenant's agent. Actually, the landlord's leasing agent is typically paid a commission which is shared with the tenant's agent upon the signing of a lease. The commission is paid by the landlord and is most often calculated as a percentage of the lease value, usually between four and six percent. Ultimately the leasing commission is included in the cost of renting the space, but it is important to remember that the commission will most likely be paid whether or not the tenant is represented. Furthermore, the savings that a seasoned tenant advisor can achieve for the tenant is almost always many times more than the amount of the commission.

**When it comes to negotiating for commercial space, there is no question that a good tenant rep will not only save you money, but will also make sure you don't make any critical mistakes.**

## WHAT SHOULD A TENANT ADVISOR DO FOR YOU?

- Understand your company's goals and objectives. The tenant advisor will counsel you as to how best align your real estate with your company's goals and objectives. Decisions about real estate often have long-term consequences. Informed decisions made after comprehensive planning insures you can rest easier that your facilities will enhance your company's progress rather than hinder it.
- Define needs. A critical step is to define your actual space needs. The advisor will make sure that you achieve



an efficient, flexible layout and that you do not lease too much or too little space. The tenant advisor can bring in a space planner or architect to discuss how your company uses space and how best to organize the various functional groups.

- Uncover market opportunities. A tenant advisor will investigate all potential properties, identify the pros and cons of each and help you determine which are most appropriate for your needs from a financial, functional and subjective standpoint. Pure tenant representation firms have no allegiance to landlords and will provide an unbiased access to and analysis of all properties in the market.
- Create leverage. Whether you are moving to a new space or renewing a lease, creating competition between multiple landlords through a controlled and organized process is the key to obtaining the most favorable outcome. The last thing you want is for a landlord to think that they have a captive audience. Tenants need to have an experienced advisor providing the proper market research and negotiating tactics that will create market leverage for them.
- Mitigate risk. An advisor protects you during lease negotiations so that you come away with terms that

meet your present and future needs. The tenant advisor knows all the ins and outs of real estate transactions and can help you avoid possible pitfalls and minimize risk. For example, a tenant advisor would ensure that exit strategies are properly negotiated such as subletting rights or an early termination option, in case you outgrow the space or need to shrink your organization.

- Serve as a buffer. A tenant advisor insulates the tenant during negotiations and can operate with external parties in a way that you might not want to yourself. Relying on the tenant advisor to act as the “bad guy” can keep your relationship with the landlord cordial, while at the same time you are securing major economic concessions. However, maintaining a positive relationship with your current or future landlord is important so the advisor should deal with every landlord in an aggressive, yet fair and professional manner.
- Provide comprehensive financial analysis. A qualified tenant advisor understands the numbers and is able to translate data into implications for your business – for example, advice on growth strategy within a particular building or market. Tenant advisors can provide you with discounted cash-flow analyses of the various property alternatives. These might include evaluations of free rent and other concessions, tenant improvements costs, parking charges, base rent increases, operating expense calculations, and options to renew and/or expand. This gives an apples-to-apples comparison in a net present value so that the tenant can see the bottom line cost of all alternatives. In addition, a comparison of leasing vs. purchasing can be evaluated.
- Review transaction documents to identify any red flags. Leases are complicated and often over 30 pages long. The

**Transform knowledge into power, partnership into action, and real estate change into long-term value.**

bottom-line effects of an improperly negotiated lease contract can have long-term devastating effect on the tenant. Although advisors are not lawyers and must not attempt to carry out legal consultation, they can evaluate the lease document's function against what is considered customary for the market. They will confirm that

the document accurately reflects the business terms that have been agreed to. Having this review completed before the lease is given to your attorney will save you time and money.

## HOW WILL A TENANT ADVISOR SAVE YOU MONEY?

After labor, facilities cost is most likely your next largest budget item. The decisions you make about real estate will have a long-lasting impact on your company's profitability. The tenant advisor is your guide through the process to minimizing your occupancy costs. Representation gives you leverage during negotiations by informing the landlord that you are professionally represented and undoubtedly advised of alternative sites and comparable lease rates.

- **Market intelligence.** Market knowledge is a key ingredient in which a qualified tenant advisor can make a huge difference. The experienced advisor will know what actual rents and concessions were obtained on recent transactions. Without that market knowledge, how would you know if the deal a landlord is proposing is a fair one? Having a solid grasp on market deal trends is important to make sure you get the best terms available. For example, if an advisor knows that a landlord offered a more attractive incentive package to a prior tenant than what is on the table, this gives you power in negotiations. Or, if the advisor knows that a landlord is having financial difficulties or is always behind on time commitments for delivering space, then the tenant can use this information to improve their position and/or protect their interests. In addition, a tenant advisor may know the temperament of a particular landlord and recognize how far to push the negotiations without jeopardizing the transaction.

- **Landlord profit centers.** A tenant advisor will look for opportunities to save the tenant money in a number of areas referred to as "landlord profit centers". For instance, rent, operating expenses, tenant improvement allowance, landlord construction control/fees, base building issues, space measurement, building load factor and security deposit are all areas where informed investigation and



negotiation with the landlord can reap financial benefits for the tenant. Additionally, proper negotiation of certain lease clauses, such as audit rights, refurbishment allowances, and expansion or contraction options will help to minimize occupancy costs over the life of the lease. In most office leases, there is a provision to pass-through to the tenant any operating expenses in excess of the "base year" amount, which is normally defined as the amount of operating expenses incurred during the first lease or calendar year of the term. The operating expense base has become an increasingly important factor to examine. If the base year amount is improperly calculated with various expense items artificially low, then you will have an inflated expense pass-through during the lease term. Your advisor can evaluate the pass-through statements from the landlord to determine if stated operating costs are in line with reality.

Whether your company is considering an expansion, contraction or relocation, you should hire a tenant advisor and do it early in the process. The time required to find suitable space, negotiate a lease or purchase, complete any necessary improvements and move in can be from four or five months - up to eighteen months, depending on the size of your space needs. And if ground-up, construction is the solution, the process is likely to be even longer. Allowing adequate time for proper planning and conducting the various stages of the space acquisition process will save time and money.



Even if you are not planning on moving, always engage a tenant advisor for lease renewals. The services of a tenant advisor during a potential lease renewal can be even more important to the tenant than the initial deal. Renewals are usually a difficult process for a



*“We’ve talked to many real estate companies through the years, but Cresa was*

*the first to sit down and get to know us. Their knowledge of the local real estate market and their ability to negotiate resulted in a far better deal than we would have ever been able to negotiate on our own.”*

*- Doug Wilkerson, President  
RTP Federal Credit Union*

number of reasons. Often landlords feel they have provided quality services and amenities during the initial lease term, and that an existing tenant should not require the services of a tenant advisor for a renewal offered at ‘market rate.’ What landlords don’t want you to know is that a renewal at market rate usually results in a huge windfall for them, considering their costs to retain a tenant are much less than finding a new one. Landlords regard renewals as a captive market, so there is less inherent leverage for the tenant. A renewal at ‘market rate’ without considering alternatives and re-negotiating is rarely, if ever, in your best interest. After all, landlords are competitive only when they have to be.

The tenant advisor is a specialist who works on your behalf in identifying space and negotiating transactions. Making effective use of a real estate professional will generate cost savings and give you the facilities and cost benefits that improve the financial and competitive position of your company.

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## CASE STUDY

Cresa Assists Raleigh Endocrine Associates in Relocating Medical Practice

### Challenge:

Identify, negotiate and move Raleigh Endocrine Associates, a thriving medical practice out of an outdated, functionally obsolete building. The practice operated from its original location for 29 years, with



2709 Blue Ridge Parkway, Raleigh, NC

five expansions during that period. A portion of the doctor group had ownership within the building. Space configuration was old, outdated, and had terrible efficiency for work flow. This caused less patient turns and limited income potential. The existing site was located next to a major hospital.

### Action:

Raleigh Endocrine Associates engaged Cresa to identify additional submarkets within hospital areas for less cost and no out of pocket expenditures. Cresa identified five viable options, negotiated three proposals, and evaluated best subjective and economic conditions for each location. The client chose a location in a different submarket that would ideally work for them.

### Result:

The client chose the ideal building located at 2709 Blue Ridge Parkway, a class “A” building on a busy corridor adjacent to a major hospital. Cresa obtained ten months free rent and operating expenses for a ten year term with a seven year “out clause” for the client. The new location included new, high-end finishes, and the overall rental rate was 21% less than the old office space. The client also engaged Cresa’ Project Management services to oversee the design, construction, and move management. Project management fees were billed to landlord as part of tenant improvement allowance, achieving an overall savings of \$74,000 for Raleigh Endocrine Associates. Client did not pay any out of pocket costs and had no holdover/ overlapping rent payments.