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Commercial Classroom: Focus on leasing transactions - by Edward Smith

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Edward Smith,
Smith Commercial Real Estate

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

Why focus on leasing? Tenants that are moving usually need to do so in three to six months. Leases close faster than sales; which is important for your cash flow.

Given the current economy we see a lot of activity in the leasing arena. Businesses are on the move, some are growing, some are shrinking and leases expire. Landlords are certainly doing all they can to retain or attract new tenants. The landlords fear is vacant space, interruption of their cash flow. This gives tenants today an edge in the lease negotiations.

As agents we have to remember it is our job to negotiate all the issues in the lease and almost every issue relates to money in one way or another. We also have to focus on who we are representing and do what is in their best interests.

The leasing process needs to begin with determining the “wish list” of our client. When representing the landlord we need to know the square footage of the available space and the base rent per square foot. But in office space we also need to determine if there is common area in the building that the tenant will be expected to pay for. Are there any “pass through” expenses in addition to the rent, i.e. utilities or CAM charges? Who pays the real estate taxes? How much security will be required? Is signage and parking included? Who pays for repairs? We need to understand the landlord’s position on every detail. We need to get this information when we take the listing.

You don’t want to show the space and have a potential tenant ask a question you cannot answer.

Representing the tenant requires the same information gathering. Remember tenants are not in the real estate business; maybe they do a lease every 5 or 10 years. They need our guidance. Go to their existing operations; help them determine how much space they really need. Observe the number of employees, as this will relate to parking requirements. If office space is desired determine for whom? Analyze how much space a clerical worker uses, look at the size of a manager’s office. How big is the conference room etc.? Helping a retailer determine needs must also include discussion of how goods are delivered to them; will they need a loading dock? Where is their inventory stored (don’t forget that basement space)? Industrial building expansion may just need a building with more ceiling height!

Another set of questions for a tenant concerns their budget. They may just be focused on overall monthly cost. We may have to educate them to “our language” or do the math for them when presenting a building with loss/core factors or pass through expenses. A key question is where do you see your business in three years, five years? The answer can help us place them in a free standing building or a large building with potential for future expansion.

Developing a “wish list” for whoever you are representing is the first step in leasing. Then look at what is most important to your client. Establish priorities for the upcoming building or tenant search

and negotiations. Also think creatively.

Helping our clients starts with communication; today is a great time to contact landlords and tenants.

Edward Smith, Jr., CREI, ITI, CIC, GREEN, MICP, CNE, is a commercial real estate consultant, instructor and broker at Smith Commercial Real Estate, Sandy Hook, CT.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540