



Hunt's Comm'l. Real Estate / "Lease Renewal"

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Q: Our lease will expire next year, and we would definitely like to stay. What are your thoughts on renewing the lease with our landlord?

A: I am sometimes surprised how little effort some tenants exert in negotiating a lease renewal. Most commercial leases involve the expenditure of hundreds of thousands of dollars, if not millions, yet some tenants will simply call the landlord and request an extension to their lease. You have the potential to create significant savings for your company with research and negotiation. Start this process at least a year before your lease expiration!

Your first step is to research the marketplace. If you were forced to move, what would your options be? Yes, I know you do not want to move, but you need to create alternatives and establish the cost of those alternatives. I highly recommend using the services of a good real estate broker. Most brokers will provide you with a market survey at little or no cost. Just be up front with them that your first choice is to renew the lease.

Second, take a close look at your existing lease. Are there any options to renew? Most options to renew have specific time deadlines, often six or nine months in advance of the lease expiration. So pull out your lease now and see what rights you might have and when you have to exercise them. If there is an option, your research in the marketplace will give you some idea of the value of the option. As an example, if the market for space that meets your criteria is typically renting at \$10 a s/f, an option to renew at \$12 s/f is relatively valueless.

Next, evaluate how your landlord is faring in the marketplace. If he is 100% occupied, perhaps with a waiting list of potential tenants, your negotiating options are limited! If he has considerable vacant space, he will be anxious to retain you. As you contemplate the costs of a move, along with "downtime" associated with the move to a new office, it may seem that your landlord has a serious negotiating edge. In fact, a lease renewal is usually a win-win scenario for both landlord and tenant. If you stay, the landlord will reduce his vacancy period (at least several months while he markets and readies the space for a new tenant), reduce his installation/construction cost, and reduce or eliminate his brokerage commission expense.

Use your broker to help you evaluate your space against alternatives in the marketplace. I highly recommend the use of spreadsheets using discounted cash-flows to objectively project the cost of each alternative. You will be using this information in negotiations with your landlord, and perhaps relocating if the alternatives are very attractive and your landlord is unresponsive.

The final step is negotiating your lease, and not just the price! All the normal terms should be on the table-lease term, increases, tax stops, landlord work and rent concession. I admit to being biased, but I believe you are best served by having a third party professional negotiator on your side. Please consider hiring an experienced broker to represent your interests.

The net result of aggressively negotiating your renewal in this manner can be substantial and well

worth the effort.

Do you have a question regarding commercial real estate? Email your question to Commercial Real Estate Q & A, at email@huntcorp.com for possible inclusion in a future column.

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