



Exclusive real estate representation is needed now more than ever to level the playing field

October 27, 2008 - Spotlights

In N.Y.C., the credit markets have taken a toll on the commercial real estate marketplace. As the saying goes someone's loss is someone else's gain. It is important to understand how the commercial real estate market works:

Nearly all owners of real estate hire exclusive real estate agents to lease their property on their behalf and are typically paid on performance or on a commission basis.

If tenants want to renegotiate or look at outside alternatives it is extremely important to start the process on a level playing field. The landlord often has representation, an agent who negotiates leases on a daily basis. One way to level that field is for the tenant to be proactive and engage an exclusive real estate broker as their representative who will protect the tenant's interest during the lease transaction. In addition, the tenant and representative will be part of a united front to secure and make an informed decision in selecting an office space in the open marketplace as well as in a renegotiation with the tenant's existing landlord.

Most tenants should secure an exclusive real estate representative to negotiate the lease renewal, relocation, and or release of their lease from their present landlord.

A common first response of the tenant, "We have a great relationship with our landlord and we do not want to upset that." That great relationship is because the tenant has been paying the rent on time, but if that were to change the "great relationship" would change "on a dime."

Rarely are there direct discussions between landlords and their tenants but now is the time when it will benefit the tenant to have a real estate representative buffering any discussions. One who fully understands the market and one who has lived through N.Y. real estate cycles. Now is when most tenants have the leverage to negotiate an advantageous transaction is indispensable. Lastly the misconception is the representative is going to cost the business owner. First and foremost, the representative will be paid by the landlord. The amount of quantitative and qualitative business components that will be part of a formal proposal made with the authorization of the tenant will far exceed any short term cost of the landlord (reminder that this cost has been budgeted for.) In addition most landlords understand the value of a broker who understands how to make a deal. Having the representative know the important points and understanding the smaller non consequential points assist in speeding up the process so that all involved can benefit, whether a deal is made or not.

Tenants: The thought of relocating a company or even renewing the company lease is often considered daunting to the owners of the corporations. Rightly so...it is overwhelming, physically demanding, and often a long process.

To relieve that feeling, the process must start early. Time restrictions should not be placed on looking for a new location or renewing a commercial lease. Patience is often rewarded in this

process. Today's market is allowing tenants to flex some of their muscle.

Business owners beginning the process of looking for space, thinking of moving or renegotiating their existing terms need to organize their materials, priorities and financials including: longevity; solid financials; references from current landlord or rental payment history; and bank reference. These items will assist your real estate professional in negotiating and securing the office space of your choice.

Real estate for most organizations is a huge cost, second to payroll, yet when many owners are asked what they are paying in rent for their office space, most do not know.

A competent real estate representative is essential to a tenant when looking for commercial real estate. Many tenants, for many reasons, think they are real estate experts and understand what is negotiable in a commercial lease. Why do they think they are experts? Perhaps because they negotiated when they bought a car last month? The average office lease is five to ten years. No one can be an expert if they negotiate a lease once every five to ten years, things change.

When negotiating a lease there are certain battles to pick, others to forgo. To move forward, you must know what battles to pick. There are over 25 components of a commercial lease. Base rent is only one component others include: square footage; loss factor; value of landlord's work; escalations; bumps in base rent in a predetermined year; real estate taxes; electric metering; incentives local and federal that may be available; and many more quantitative as well as qualitative components.

A competent broker will know the ownership structure of the particular building in question and know what the expenses are for that owner, which owner is highly leveraged and which ones are not. A knowledgeable broker will know the market and the owners in it.

Landlords: As mentioned earlier most real estate owners understand the value of having an exclusive real estate broker (agent) representing their property(s) to lease the empty space in their property. These agents are typically paid on performance or on a commission basis.

Most landlords work with a budget and part of the budget includes commissions. If a landlord at the end of the year identifies more commissions have been paid, that often means more office space has rented. This is a good thing!

David Kahane is a principal broker at DAK Commercial Realty, LLC, New York, N.Y.

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