

How Tenants Can Achieve Leverage in Lease Negotiations

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Negotiating a facility lease will have long term consequences long after the lease is signed. A good lease will enable your company to grow, satisfy its employee needs and operate efficiently over the long haul. In short, a good lease can provide a company with a competitive advantage. By contrast, a poorly put together lease will create a lot of problems and unnecessary headaches for your company for a long time to come. Here's how to get the best deal on your next lease:

Leverage

The single most important thing that you can do in order to negotiate the best office lease is to get and maintain negotiating leverage. The one that has leverage dictates the terms of the deal. You can forget all the tricks and tactics that are promoted in books and tapes. In the real world these gimmicks simply don't work. The reality is simply that you have get leverage, maintain leverage, and know how to use leverage in order to get the best possible deal on your next commercial lease.



"Leverage (lev'er-ij) n. The ability to create maximum results with a minimum expenditure of resources."

Think of leverage as a "more for less" proposition. In other words, creating maximum benefit at the least cost. In office leasing, the classic example of the tenant having leverage is when the local office market is over built and the prospective tenant can simply walk away from one deal and go to the next. In this environment the tenant is granted "defacto" leverage given market conditions. But it's a completely different story in a "tight" market. When the demand for space exceeds the supply of available space, the landlord has the natural advantage. In this case, the tenant must take certain steps to neutralize the landlord's leverage. It is even possible in certain situations for a tenant to wrestle leverage away from the landlord.

Negotiation

It has been said that good negotiators are "hard on the process and soft on the people", or as Theodore Roosevelt, our 36th President advised, "One should speak softly and carry a big stick." Both of these sayings are true in office lease negotiations. A tenant entering lease negotiations, especially in a tight market place, must take a "big stick" to the negotiation table. This will put leverage on your side.



A well planned strategy will help you obtain leverage.

Since you will be married to the landlord for several years to come, it is important to build a good relationship from the start. A tenant can also use "soft on the people" communication skills to build rapport and persuasively

negotiate a lease. These skills include listening, relationship building, asking questions and addressing what's important to the landlord during negotiations.



“Speak softly & carry a big stick” - Theodore Roosevelt

“The three most important elements in lease negotiations are time, information, & competition.”

Three Things Every Tenant Should Know:

- ◆ Information about your own needs
- ◆ Accurate information about the market place
- ◆ Information about the other side

Preparing for the Negotiations – The Big Stick

Time, information and competition are the three crucial factors a tenant needs to focus on in preparing for lease negotiations. Here are some steps tenants will need to take to gain an advantage in each of these areas:

Beat the Clock – In order to control time, the first thing a tenant should do is get started early. This way you are not forced to negotiate with your back against the wall. It is very important that a tenant have a good idea how long it's going to take to negotiate a lease. My experience is that most tenants really underestimate how long it can take to get through the process of finding space and negotiating an acceptable lease.

The actual time required to find space and negotiate a lease varies from assignment to assignment. Smaller space that requires only minor tenant improvements can take as little as three to six months. On larger leases, however, the tenant should allow at least nine months to get through the whole process. If a tenant doesn't get started early enough, they can get squeezed on the back end and find themselves in the shadow of a looming deadline.

Deadlines can be useful tools in negotiations. A tenant can establish and enforce deadlines to keep the deal moving in *its* direction. When deadlines are used by landlords against inadequately prepared tenants, they can be real killers in negotiations because of the urgency they create to get a deal done. It's important not to be pushed by a deadline for the following reason: Landlords tend to give up larger concessions towards the end of a lease negotiation. The concessions they give up front are generally small and most landlords only really give up the big items only when they think they're about to make a deal. If you have a deadline your facing and the other side doesn't, they can simply wait you out.

Three Things Every Tenant Should Know – There are three kinds of information that a tenant must have before negotiating a lease:

- First, you need information about what their own needs are so they can evaluate properties accordingly.
- Second, every tenant must have accurate information about the market place.
- Third, and probably the most important to the negotiation itself is information about the other side. Who, specifically, are you dealing with? Who is involved? How do they make decisions? What's important to the other side? What are their resources? And, most importantly, what is the minimum they will require from you to give you what you want?

It is unrealistic, however, to expect that a landlord will give you information that will compromise their position. So, it's important that your real estate broker knows both the market place and the players.

Always remember this: The more specific the information is to the tenant's needs, the more useful it will be in negotiations. While general market statistics are useful, vacancy rates and rental rates per se are less important than knowing about specific space available that meets *your* needs. When a landlord tells you that there's a low vacancy rate in the local area, be prepared to point out that you still have several other facility choices available.

Information about the landlord will give you some clue about how they negotiate and tell you what items they can be firm or flexible on. For example, a landlord who has owned a building for many years, has no debt against the building, and has

maintained a stable cash flow, may not be willing to invest or borrow for extensive tenant improvements. This owner may, however, trade off a lower rent if the tenant finances tenant improvements. On the other hand, a landlord with a new project under construction may be faced with a lender's valuation requirements that dictate higher lease rates and better credit tenants. This owner may give more tenant improvements, moving allowance, or "free rent" for a higher base rate.

"Walk Away" Power – Your Competitive Advantage – It is a lot easier to get a better deal when there's competition for your business. This makes it extremely important that a tenant maintain several options available. First of all, be sure that your real estate broker has surveyed all of the available properties (not just their listings) to satisfy your needs. Once you have a "short list" of properties that could meet your requirement, it is absolutely essential to use a negotiating strategy that creates competition for your business. A good way to do this is to break the negotiation into two phases:

- Preliminary negotiations
- Detailed negotiations

During preliminary negotiations you may request proposals from several landlords with the idea of comparing their values one to another. This will allow you to "test the market" to determine exactly how firm or soft it is at that moment. Be certain that the negotiation process you use is designed to test the competitiveness of the market place. You might be surprised at how much you get.

In summary, in order to gain a strategic negotiating advantage - to get the "big stick" - a tenant must manage its time wisely, seek out all important sources of information about the people and places involved in the market place, and use a competitive negotiating process that encourages competition for the tenant's business. When a tenant has done this kind of preparation, they will be in excellent position when they sit down at the negotiating table.

At the Negotiating Table - - Speak Softly

Probably the most important thing we can do when negotiating with others is listen more effectively. When we listen to the other side, there are really two benefits: one is we are paying them a compliment because obviously everyone wants to be heard, and second, we are gathering more information from the other side, information that can be used to develop leverage.

Listening - A few hints on listening skills are:

- Don't interrupt
- Take notes
- Look at the other person in the eye

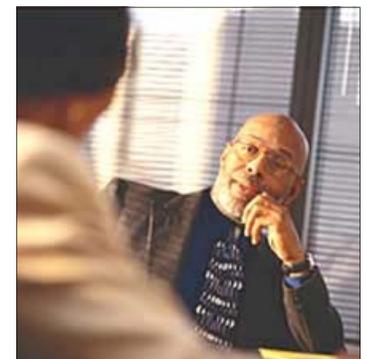
Keep track of who's doing most of the talking. The one who's doing most of the listening will be talking less. By listening more you will gather more information and this information will help you develop leverage.

Relationship Building – When a tenant and landlord enter into a lease, they are laying the foundation for a long term business relationship. Lease negotiations are a preamble to the landlord/tenant marriage. With this in mind, it's important to begin building a good relationship with the landlord from day one. Remember that establishing good feelings between the tenant and landlord does not get in the way of getting what you want. In fact, it should help you by opening the other side up to more candidly discuss what their needs are. This, in turn, will allow you to give up only those things that are important to the other side and keep the



***Competition creates
a better deal!***

***"Choice means
walk-away power,
and walk-away
power means
better leverage."***



***Good listening skills help to
gather more information &
gain leverage!***

Remember...

- Use time to your advantage
- Exploit all information possible
- Create competition for your business
- Listen to the other side
- Build a sense of relationship with other side
- Ask questions
- Present solutions

benefits that are most important to you. There are several good ways to build relationships:

- Show a genuine desire to understand what is important to the other side.
- Acknowledge that their needs are legitimate. (You can do this without agreeing to solve those needs.)
- Try to “read” the other side and try to get on their “wave length”.

Some negotiators, for example, are very detail-oriented and you will need to support your position with facts and figures. Other negotiators look only at the big picture. Some are very sociable and some just simply want to get down to business. Make a habit of reading people as you enter negotiations. By staying “other focused” you will not only be able to get in sync with the other side, but also more quickly discover what they are going to want to make a deal.

“Smart” Questions – Unfortunately, most of us are taught during our school years that asking questions can put us in the position of looking foolish. Don’t let this stop you from asking questions. There’s no advantage however of looking smart at the negotiating table. Early on you want to be asking the landlord about what they want to get out of the negotiation, how you can best approach things, and use questions that explore what they need to see to put a deal together. After they make an initial offer, don’t be afraid to ask them “is that the best you can do?” You would be surprised how many people will actually negotiate against themselves and start giving in more if you simply ask them the question. Even if they don’t give you a concession, you generally will get some information if you ask the question and just remain silent. When you combine good questions and listening skills, you can become a very powerful negotiator.

“WIIFM?” – Every salesperson is familiar with WIIFM (“What’s In It For Me?”). To be very persuasive during lease negotiations, you must put your proposition or offering in terms that meet the landlord’s needs. Ask yourself “What’s in it for the Landlord to do this deal?” You can bet they will be asking it! Why should they give you the concessions you seek? By spending time up front listening to the other side and asking a lot of questions about their situation, you should be in a position to develop solutions to meet their needs without giving up what’s important to you.

Are you ready for your next lease negotiation?

Is your company planning to relocate or renew its lease in the next 18 months? If so, please contact:

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Eric or John will review your lease and give you information on how to make the most of your next lease negotiation.

For more information on how Eric and John can help accommodate your commercial real estate needs, please visit our website at www.pugetsoundproperties.com.

