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How to renegotiate your office lease

By Barry Saywitz

The process of negotiating or renegotiating an office lease is far more complex than one might think. There are several misconceptions which often lead tenants to sign a new lease in which they pay too much rent or leave additional concessions on the negotiating table.

The most important key in any negotiation is information. The more one knows about the motivations and desires of the other side, the better positioned one is to negotiate a better deal. The key to this process is to create leverage with the landlord.

Don't wait until the lease is almost expired to begin negotiating with the landlord. The negotiation process takes several months at best. Begin to formulate a strategy about your options early so that if you need to look at relocating to alternative space, you have ample time to do so. In instances where the tenant is paying above-market rents, the landlord will attempt to drag the negotiations to keep the rents at the higher level for a longer period.

If you are successful in reaching mutually acceptable terms with the landlord, your new, lower rental rate can start immediately rather than waiting until the existing lease expires. Your landlord will not offer this to you. It is your responsibility to know that everything is negotiable, and this should be a condition that you spell out early.

The benefit to the landlord to reduce your rent immediately is that you are signing a new lease for a longer period. You guarantee the landlord's cash flow without interruption. Additionally, an in-depth study performed by The Saywitz Company, a national commercial real estate consulting firm, showed that it costs the landlord six to eight times as much money

to re-lease office space as it does to renew the existing tenant.

The benefit to the tenant is an immediate rent reduction which directly effects the bottom line. Early renewal also provides the ability to fix the rental rate for a longer period at a lower rate. As real estate markets change, rental rates will fluctuate, and concessions and market opportunities will vary based on the overall economy. With this in mind, if you can fix your costs today and if market rates continue to rise, you will be in the position to pay below-market rents in the future.

Always negotiate from your starting point and deal from a proactive position of strength, not a reactive position of countering the landlord's offer. To accomplish this, you should begin by giving the landlord an initial offer of what rent you are willing to pay and what other issues need to be addressed, such as tenant improvements, parking charges, operating expenses, etc. Too many times, the tenant begins negotiating from the landlord's starting point. Although there may be concessions made, you will never know if there was money left on the table.

Conceptually, from the tenant's perspective, your renewal or renegotiation should result in a deal that is less than what it would cost you to relocate. The deal should also be more than what the landlord would receive in net rent, including downtown, free rent, tenant improvements and releasing costs. The difficult part is determining where this middle ground lies. You need to remind your landlord, that in the event that he does not give you an aggressive rental rate, to induce you to stay, you are prepared to deal with the issues of a relocation.

On the other hand, if you relocate, the landlord will have several issues as well. How long will it take to find a new tenant? Will the new tenant require improvements? Will the new tenant be as financially stable as you are? How much will the new tenant pay? All of these factors are virtual unknowns to both you and the landlord. However, certain estimations can be made to derive high and low scenarios to what may potentially happen to the landlord if you leave the building. Here lies your leverage.

The landlord is betting that you won't move, and you are betting that he will drop the rent to avoid the hassle and costs of re-leasing your space. The tenant who provides the best argument for justifying his position and the one who is prepared to deal with the consequences of his alternatives will succeed in negotiating the most advantageous deal.

Sophisticated tenants will utilize the assistance of experienced, tenant-oriented real estate brokers and consultants to assist with this process. These professionals will create leverage, provide market information and negotiate on behalf of the tenant. In many instances, their fee is paid for by the landlord and there is no direct monetary cost to the tenant. Savings can save as much as 15-30% immediately. This translates into substantial savings to the company. As in any business decision, the use of qualified experts is recommended.

Barry Saywitz is president of The Saywitz Company, a national commercial real estate brokerage and consulting firm specializing in exclusively representing tenants in lease negotiations. Additional information on The Saywitz Company can be found at www.saywitz.com.