ITRA® International Tenant Representative Alliance

Issue XXV

Real Estate Strategies

The Stevens Group | Boston

Improving the Bottom Line

Companies today are focused on maintaining their customer base, preserving revenue, controlling costs and increasing their bottom line. If they are leasing space, help may be available from an unexpected source – the landlord.

Debra Stevens

Landlords in many markets are not only competing to attract new tenants to their empty space, they are also in competition with their existing tenants, as reductions in staff make more companies anxious to sublet their surplus space to preserve capital.

As vacancy rates edge up during the current economic slowdown, lease costs have come down, with many landlords aggressively seeking to lease space to tenants with good credit. Landlords are offering such concessions as generous tenant improvement allowances, free rent, and in some cases more liberal lease terms not seen in many years.

Existing tenants need not endure above-market rents for the remainder of their lease term. With the help of an experienced tenant representative, the right timing and specific market knowledge, an existing tenant can develop leverage to renegotiate rent, re-set base year expenses and re-write restrictive rights in the lease that may now favor the landlord.

Give us a call at (617)886-9300 to arrange a no-cost review of your existing lease to determine if it is the right time to renew, renegotiate, or look for alternative opportunities. Even if your lease is not up for a couple of years, there may still be room to reduce your overhead and improve your bottom line.

When it comes to disaster planning…

You Can Never Be Too Prepared

By Martin Levy, CEO
ITRA/Martin Levy Commercial, London

IT TOOK A FIRE AT MY OFFICE FOR THE LITTLE LIGHT TO GO ON. JUST HOW VULNERABLE IS EVERY BUSINESS, REGARDLESS OF SIZE, TO DISASTER? DO WE REALISE HOW MUCH WE LEAVE BEHIND EACH NIGHT WHEN THE LIGHTS GO OFF?

Consider that:

- *43% of companies suffering a disaster never recover*
- *80% of companies without a Business Continuity Plan fail within 18 months of a disaster*
- *It is estimated that 90% of backups will FAIL to restore data as required**

**("A Guide to Business Continuity Planning" Chelmsford Borough Council, UK)*

It doesn't matter how big or small your company is, or whether you have teams of executives or consultants involved in disaster preparedness. The simple truth is that being prepared to survive the unexpected requires constant vigilance.

Unless we constantly review, revise and test our procedures and systems, adjusting to new and changing threats and circumstances, we may not be prepared for disaster.

Complacency leaves us vulnerable to disaster. Consider that ten years ago, global computer "worms" were not as common or lethal as today. The 9-11 attack in the US had not yet happened. How inconceivable was the terrorist attack in Mumbai, assisted by VOIP technology and remote communications with real time instructions? Could anyone have envisioned global pandemic biological threats or the Katrina disaster in New Orleans?

Times change. Threats change.

As the world changes, those planning to protect their companies against disaster must be prepared to change their thinking, preparations and approaches.

A good starting point for all com

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Five Secrets for Successfully Negotiating a Commercial Lease

By Robert Chavez, Founder and CEO
ITRA/Guardian Commercial Realty, Los Angeles*

MOST COMMERCIAL TENANTS CONSIDER LEASES TO BE AN ADMINISTRATIVE HASSLE. THE FASTER THEY CAN MOVE THROUGH THE IRRITATING PAPERWORK, THE FASTER THEY CAN MOVE ON WITH BUSINESS.

But with real estate overhead the second-most expensive line item for businesses, negotiating leases should not be taken casually, particularly for commercial tenants renewing their commitments for an additional 5-10 years.

Aggressive landlords can increase a company's rent and related expenses by more than 50 percent at each renewal. Landlords attempt to impose all costs, risks, and inflated profits to their commercial tenants, and most tenants simply sign on the dotted line, quickly committing to long-term, expensive leases in exchange for few and minor concessions.

Why rush to sign an agreement that clearly favors the landlord? The end of a lease is a time for companies to take stock of their real estate situation and leverage the alternatives, like leasing in another building or buying a property.

Tenants should take a strategic approach by following five basic steps for negotiating a commercial lease:

The end of a lease is a time for companies to take stock of their real estate situation and leverage the alternatives.

1. Quantify the landlord's costs if the tenant vacates.

It is always in the landlord's best interests to renew your lease. Construction expenses, space planning and permitting for a modest retrofit cost conservatively $20 per square foot (PSF). Preparing space, advertising and negotiating a 10,000-square-foot (SF) space for a new tenant may cost $450,000 to $600,000, or $45 to $60 PSF. Compare this to the $6 to $9 PSF concession package used to entice tenants to renew. A tenant renegotiating a lease can generally bargain for much more than a new paint job and a few minor frills. Clearly, landlords do not want tenants to be aware of this.

2. Ignore bullying tactics.

Landlords know that a professional tenant representative will educate the tenant—at the landlord's expense. To avoid this, landlords often approach their tenants early. They propose two sets of lease terms: a lower rate if the tenant has no representation; or higher rent for broker-negotiated deals. The landlord blames the difference on commissions, which is not true.

Getting a tenant representative involved early in the process will save you money. Tenant representatives are more likely to save you money than just hiring a lawyer.

3. Conduct due diligence.

Even tenants with no desire to relocate should conduct due diligence of market conditions. Knowledge of the quality, quantity and cost of relocation opportunities provide negotiating leverage.

Understand the true logistics of your office space needs. Different companies have different space requirements. Not all tenants fit efficiently into all buildings. A large insurance company might fit well into a 70,000-square-foot floor, but the same large floor could be extremely inefficient for a 10,000-square-foot mortgage company. Use your broker and architect early in the process to help determine your company's needs. An appropriate floor size and shape can reduce a tenant's square footage by 10-15%. That's about $180,000 in savings for a 10,000-square-foot tenant over five years.

Tenants must carefully select their commercial tenant representative—only hire an exclusive tenant representative. Most brokers derive their revenue from representing landlords in managing, leasing, selling, and refinancing. These brokers seldom aggressively negotiate on behalf of a tenant. True tenant reps have no conflicts because they don't accept work from landlords.

Interview several tenant representatives. Look for experience, references and chemistry. Be certain they're more than a marketing expert, and insist that they personally handle your assignment.

4. Consider the true cost.

Failure to properly negotiate a lease can cost a 10,000-square-foot tenant $300,000 over five years. Tenants should consider square footage calculations, option language for expansions and extensions, detailed landlord responsibilities, appropriate base year calculations, tax protection, and exclusions from operating expenses—issues

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ITRA Success Story:

ITRA's Duryea Helps Economic Council Overcome NY Market's Whipsaw

Negotiating for new space on behalf of an organization in a market that is rapidly tilting towards the tenant's advantage is a benefit everyone would like to have. It becomes a two-edge sword, however, when conditions require the tenants to simultaneously dispose of their existing leases.

COUNCIL FOR Economic Education
Teaching Opportunity®

Protecting the tenant from these historic market gyrations was the task of Al Duryea, principal of ITRA/New York Realty Group, who has represented the National Council on Economic Education, now known as the Council for Economic Education (the Council), for nearly 20 years.

In early 2008, the Council needed to expand their office in New York by 40% but their existing lease term had more than two years remaining. The group reviewed 40 potential new spaces. Offers were made, with negotiations proceeding on five buildings. During this same intense space search, ITRA's Mr. Duryea produced multiple sublease offers on the Council's two existing spaces.

All three leases were signed on the same day. The Council leased a full (tower) floor in the Grand Central area at below market rent with a complete new installation provided by the owner. The Council's chief operating officer (COO), Joseph A. Peri, termed the multiple transactions "challenging."

"Without Mr. Duryea's wise counsel, we would not have managed the complicated process of having to find new, larger, yet still affordable space, while simultaneously subleasing our old spaces, within the normally complicated midtown Manhattan market. This was made many times more challenging by the rapidly unfolding financial market collapse. It was heartening to know we had a partner with the utmost credibility, integrity and client loyalty."

The ITRA® Advantage | Global Services

Office, Industrial and Retail Facilities

- Regional, National, International Headquarters
- Sales Offices
- Research & Development
- Information Centers
- Telemarketing
- Backroom Operations
- Warehouse / Distribution
- Manufacturing

Real Estate Market Analysis

- Acquisitions
- Dispositions
- Lease Renewals
- Manufacturing

Negotiations

- Proposals
- Leases
- Dispositions
- Acquisition Contracts
- State & Local Incentives
- Sale/ Leasebacks
- Workletters
- Operating Expenses & Taxes
- Architectural Engineering Contracts
- Developer Agreements

State & Local Incentive Negotiations

- Statutory and Negotiated Incentives
- Cash grants
- Infrastructure
- Tax credits and abatements
- Workforce grants and training
- Subsidized land and building costs

Lease Management

- Lease Abstracting
- Financial Reports
- Tax & Operating Expenses

Strategic Planning

- Model Development
- Acquisition / Consolidation Analysis
- Policies & Procedures Manuals

Location Analysis

- Labor Market Analysis
- Transportation Costs
- Utility Costs & Availability
- Quality of Life
- Taxation
- Market Accessibility

Financial Analysis

- Buy vs. Lease
- Build-to-Suit
- Equity Participation
- Sale / Leasebacks

Surplus Property Analysis

- Marketability
- Highest & Best Use
- Disposition Strategies

Construction Consulting

- Project Management
- Contractor/Subcontractor Selection

North America Office Market Survey — Fourth Quarter 2008

	CITY	TOTAL SQUARE FEET	VACANCY	AVAILABLE SPACE	AVERAGE RENT
1	Atlanta	221.7M	17.5%	39.6M	$22.10
2	Austin	39.3M	16.0%	6.2M	$26.43
3	Baltimore	93.5M	12.0%	13.4M	$22.35
4	Boston	73.9M	8.2%	7.6M	$40.83
5	Charlotte	64.0M	11.0%	7.0M	$20.35
6	Chicago	305.4M	17.0%	52.8M	$26.00
7	Colorado Springs	27.3M	11.6%	3.1M	$11.46
8	Dallas	194.5M	21.8%	40.2M	$19.39
9	Denver/Boulder	141.0M	18.6%	26.2M	$22.23
10	Fairfield County, CT	49.2M	10.7%	5.1M	$31.81
11	Ft. Lauderdale/W. Palm Beach	89.2M	15.0%	17.6M	$27.86
12	Houston	210.3M	12.6%	26.6M	$24.25
13	Las Vegas	50.2M	17.9%	8.5M	$27.83
14	Long Island	105.4M	9.5%	9.9M	$28.68
15	Los Angeles	328.6M	11.0%	50.4M	$32.52
16	Manhattan	521.4M	12.0%	66.4M	$58.43
17	Miami	66.0M	13.6%	9.0M	$33.36
18	Minneapolis	116.6M	10.3%	12.8M	$17.13
19	Nashville	29.9M	9.4%	2.8M	$18.54
20	New Jersey	253.0M	18.0%	45M	$26.16
21	Norfolk	33.9M	11.0%	3.5M	$18.83
22	Orange County, CA	123.1M	15.0%	25.5M	$29.52
23	Orlando	62.5M	14.3%	8.8M	$22.50
24	Philadelphia	94.1M	16.0%	13.2 M	$26.15
25	Phoenix	124.8M	19.8%	24.7M	$26.35
26	Pittsburgh	93.9M	11.4%	9.9M	$19.42
27	Portland	65.1M	11.0%	9.4M	$21.34
28	Richmond	43.0M	10.0%	4.3M	$17.05
29	Salt Lake City	19.7M	12.0%	2.4M	$18.93
30	San Diego	80.8M	18.6%	14.3M	$33.14
31	San Francisco	90.6M	12.3%	11.2M	$32.85
32	San Juan, PR	41.7M	16.0%	6.5M	$25.02
33	Seattle	134.0M	16.7%	14.4M	$32.07
34	Silicon Valley	87.3M	13.0%	11.3M	$30.92
35	Spokane	9.8M	13.0%	1.3M	$16.34
36	St. Louis	85.0M	11.2%	9.5M	$19.43
37	Tampa	41.7M	16.0%	6.5M	$25.02
38	Toronto	163.0M	6.8%	11.1M	$35.38
39	Tucson	17.4M	12.0%	2.1M	$20.08
40	Washington, D.C. Metro	429.5M	11.8%	50.8M	D.C.:$49.82/Metro:$34.45
41	Westchester County, NY	35.9M	11.0%	3.8M	$29.23

London Office Market Survey — Fourth Quarter 2008

	DISTRICTS	TAKE UP	GRADE A VACANCY	PRIME RENT	% ANNUAL CHANGE
42	West End	625,000 sq ft	3.30%	£95.00	Down 17.40%
43	City	694,000 sq ft	4.20%	£53.50	Down 15.75%
44	Docklands	2 million sq ft	1.90%	£42.50	Down 10.50%

Definitions for London "Take Up"—Space absorbed in the previous quarter | "Supply"—Available Space | "GBP"—British Pounds

Asia/Pacific Rim Office Market Survey — Fourth Quarter 2008

	CITY/COUNTRY	TOTAL SQUARE FEET	VACANCY IN %	AVAILABLE SPACE	AVERAGE RENT
45	Bangalore, India	32M	3.00%	.96M	$17.16
46	Chennai, India	29M	N/A	N/A	$13.56
47	Hyderabad, India	N/A	3.70%	N/A	$33.00
48	Mumbai, India – Nariman Point	23.5M	1.40%	0.33M	$166.00
49	New Delhi, India – CBD	33.2M	2.30%	.76M	$135.00
50	Beijing, China – CBD	148M	14.60%	23.6M	$45.00
51	Hong Kong, China	49M	3.00%	1.4M	$87.00
52	Shanghai, China – Pudong	38.4M	2.80%	1.1M	$11.16
53	Taipei, Taiwan	17.3M	14.50%	1.2M	$21.00
54	Tokyo, Japan	661M	3.00%	19.8M	$111.41
55	Seoul, South Korea	69.1M	3.60%	2.5M	$36.87
56	Singapore, Singapore	46.1M	2.70%	1.24M	$117.84
57	Jakarta, Indonesia, Class A&B	38.7M	19.4%	7.5M	$12.00
58	Brisbane, Australia - Fringe	18.8M	1.00%	.19M	$54.00
59	Melbourne, Australia – CBD	39.6M	5.90%	2.34M	$60.00
60	Sydney, Australia – CBD	51.1M	7.30%	3.73M	$49.42

Central/Latin American Office Market Survey — Fourth Quarter 2008

	CITY/COUNTRY	TOTAL SQUARE FEET	VACANCY IN %	AVAILABLE SPACE	AVERAGE RENT
61	Bogota, Colombia	17M	N/A	.30M	$32.40
62	Buenos Aires, Argentina	8.9M	1.50%	.86M	$42.36
63	Caracas, Venezuela	7.5M	5.00%	.37M	$40.91
64	Lima, Peru	4.3M	7.00%	.26M	$18.95
65	Mexico City, Mexico – Reforma	36M	4.50%	1.5M	$39.02
66	Monterrey, Mexico	5.2M	11.50%	.58M	$26.76
67	Panama, Panama	3.7M	11%	.39M	$21.00
68	Sao Paulo, Brazil	24M	9.90%	2.3M	$52.64
69	San Jose, Costa Rica	4.4M	5.00%	.22M	$21.24
70	Santo Domingo, Dominican Republic	N/A	N/A	N/A	$22.80
71	Santiago, Chile	23.8M	N/A	2.3M	$26.66

Disclaimer: This survey contains information from sources deemed to be reliable and accurate. However, we make no representation, warranty, or guaranty of its accuracy.

You Can Never Be Too Prepared

Continued from page 1

panies, large and small is the Risk Assessment Matrix (RAM) created by The School of Criminal Justice of Michigan State University. RAM is a template for a thorough, scheduled periodic review of your firm's disaster preparedness. Large corporations and major government agencies have similar comprehensive checklists, and there are firms specializing in disaster recovery that focus on such specific aspects as computers or telephony.

Every business should start with core functions and processes:

- Communications
- Customer service
- Facility management
- Human resources
- Information technology
- Inventory
- Marketing and Sales
- Production
- Shipping/receiving
- Training

Make a list of all of the conceivable threats, ranging from such natural occurrences as **storms**, **earthquakes** and **floods**, to man made situations such as **terrorist strikes**, **biological disasters**, **explosions**, **technological interruptions**, **civil disturbances** and the **loss of a key customer** or **supplier**.

Using a spreadsheet, the review should identify ***critical*** areas, as in what is necessary or a safety risk. This should be distinguished from what is ***essential***, as in what might become critical in time versus what may be ***inconvenient*** or ***non-essential***. Each business function should be labelled according to its likelihood and vulnerability to being affected by these threats.

For each contingency, a plan of action should be prepared. What is the plan in the event of a plant closing, hazardous materials discovery, fire evacuation, etc? What preparations have been made for vital records protection, mutual aid agreements or shelter-in-place?

Is there a hierarchy for emergency responses? If the CEO is not available, for example, who authorizes an evacuation order? What is the emergency response plan? Is an emergency management group needed? Are the emergency responders identified, regularly trained and equipped? What are the protocols for releasing information to the public?

**Times change.
Threats change.**

Facilities and equipment issues must be included in disaster preparedness. This covers emergency facilities as first-aid stations, emergency operating areas, media briefing area, shelters, etc. Equipment might include fire protection/suppression equipment, warning systems, first aid supplies, emergency power generators, communications equipment and decontamination equipment.

With all of these serious disaster preparedness issues to address, there's still one area that can be easily forgotten, but is nonetheless quite critical: the lease(s) under the company's control. A property lease should be written providing for some tenant protection. (This is more likely to happen when working with an unconflicted tenant representative, like an ITRA exclusive tenant representative).

In the lease there needs to be clear definitions about what happens when a tenant cannot occupy a space. Under what conditions is a company obligated to pay rent to the landlord when the space is only partially habitable?

When negotiating a lease, a tenant should try to determine who (tenant or landlord) bears the risks in specific situations and who pays for and provides the insurance coverage. For example, the Fire and Casualty provision may indicate that if the tenant is unable to utilize the premises due to casualty, the tenant does not pay rent until the repairs are made.

If your firm faces a disaster, it may be forced to relocate and pay for temporary space, potentially at a rent higher than the existing rent. Business Interruption Insurance covers lost income, and Extra Expense Insurance, which covers additional rent and expenses. This should be considered a part of your disaster preparedness and business continuity strategy.

Companies preparing for a possible disaster must not only consider every contingency that affects their office space and physical assets, but also what happens if and when they become separated from their space during an emergency.

It's not just good business—it's a matter of survival!

(Martin Levy may be reached at mlevy@itraglobal.com)

Five Secrets For Successful Negotiation

Continued from page 2

best negotiated by an exclusive tenant representative.

5. Take the initiative.

Generally, if a tenant with an expiring lease waits for the landlord to approach them, they've waited too long. The due diligence necessary to effectively negotiate leverage takes at least 18 months, so start negotiations two years before the expiration date. The entire process should be finalized no later than six months prior to lease expiration. Be proactive—send a clear message to your landlord: you have committed the time, energy, and resources necessary to secure the best terms for your space. Your landlord must consider your needs—or another landlord will.

A Success Story

Paul Wylie, founder and former owner of Metrocities Mortgage, LLC, grew his six-man company to 1400 employees and over $10 billion in financial services.

Despite Wylie's inside knowledge of the real estate industry, the 200-page commercial lease agreements he was presented with when negotiating rental space for his company were overwhelming. Instead, Wylie hired ITRA/Guardian Commercial Realty, which saved Metrocities Mortgage approximately $3 million over 15 years.

"They negotiated things I did not know were negotiable," said Mr.Wylie, adding that his agent identified and removed sections of the lease that would have been financially detrimental to his firm.

**This article was edited for publication.* *Robert Chavez may be reached at robert.chavez@guardianusa.net.*

International Tenant Representative Alliance

● ITRA Locations

7/2008

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Asheville	Fairfield County	Northern NJ	San Francisco
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Inside

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ITRA provides corporate real estate services for tenants and buyers throughout the world.