

Renewing Existing Leases in Today's Commercial Office Market

As economic prosperity steadily returns to the Dallas/Fort Worth metroplex, tenants are beginning to feel a shift in power in many regional office markets. Falling vacancy rates are prompting landlords to once again raise rental rates and reduce economic concessions. Due to the higher capital and business-opportunity costs associated with relocating a business, more tenants are facing in-place renewal negotiations with their current landlords. Here are some guidelines for tenant to orchestrate a successful renewal negotiation.

DETERMINE THE VIABILITY OF A RENEWAL

Know your business plan

As a tenant, you must be in a position to realistically forecast long-term space needs. Make sure you've validated your space program before committing to an additional lease term.

Know your submarket

Your current landlord is undoubtedly aware of what's happening in the local real estate market – you should be, too.

Know your building

Circumstances within your building including current renewals, who's in the market and what renewals are pending, could influence your ability to negotiate.



Know your landlord

Is your building owned by a REIT or is it privately held? Does the landlord have debt on the building? Knowing what factors drive the landlord's decision-making process can bolster your negotiating strategy.

Know your alternatives

Relocating to a new space is always an option. However, tenants must carefully compare the alternatives and associated issues and expenses, such as relative rental costs, tenant-improvement costs, furniture costs, data-cabling costs, moving costs and business disruption.

Even if you have no intention of taking different space, it's prudent to put in the time and energy to examine

the options...and it certainly doesn't hurt your negotiating position if your landlord hears that you're out in the market touring space.

NEGOTIATE EFFECTIVELY Use knowledge and timing as power

When timing the renewal negotiation, you should try to match your negotiating strategy to fit your landlord's specific needs – whether it's for continuation of cash flow, long-term asset value or refinancing existing debt.

Leverage your credit & relationship

If you have good credit and/or a solid credit history with your landlord, it's definitely a strong leverage point in terms of valuation benefits and minimization of risk.

Appeal to your landlord's pocket-book

One of the most valuable negotiating tools for a renewal is an empirical analysis that demonstrates bottom-line impact for the landlord by outlining the costs of acquiring a new tenant at market rates versus renewing your existing lease.

Employ expert representation

A qualified tenant representative brings dedicated advocacy to the negotiation and can save you both time and money.

On the whole, a wisely crafted renewal is often a win-win for both the tenant and the landlord – the landlord realizes increased long-term asset value and stabilized future rent flow, while the tenant avoids capital expenditures and business interruption. In most cases commissions garnered by an advocate are part of the deal costs and will typically go back to the landlord or the landlord's representative.

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