

THE KEYS TO NEGOTIATING THE OPTIMUM LEASE



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COMMERCIAL REAL ESTATE BROKER

- ◆ Tenant Representation: Office, Light Industrial, Medical Dental
- ◆ Building or Land (Purchase/Sale) for a User/Owner or Investor

- ◆ **Market Overview**
- ◆ **Assembling the Right Team**
- ◆ **Timeline**
- ◆ **Rental Rate vs. Occupancy Costs**
- ◆ **Non-Economic Factors**
- ◆ **Cost to the Landlord for Losing a Tenant**
- ◆ **Creating Leverage**
- ◆ **Who Pays the Fees and How are they Split**
- ◆ **Conclusion**

”Landlords Grow Rich in Their Sleep”

By: John Stuart Mill

Office Market

(per Costar)

Houston - TX \$75.8 B Asset Value			
Inventory SF	328 M ↑	Market Rent/SF	\$27.86 ↑
Under Constr SF	3.8 M ↑	Annual Rent Growth	0.6% ↑
12 Mo Net Absorp SF	1.2 M	Market Sale Price/SF	\$228 ↑
Vacancy Rate	16.3% ↓	12 Mo Sales Vol	\$2.8 B ↑

Industrial Market

(per Costar)

Houston - TX \$54 B Asset Value			
Inventory SF	617 M ↑	Market Rent/SF	\$7.27 ↑
Under Constr SF	10.4 M ↑	Annual Rent Growth	2.7% ↑
12 Mo Net Absorp SF	9 M	Market Sale Price/SF	\$86 ↑
Vacancy Rate	5.5% ↑	12 Mo Sales Vol	\$912 M ↓

Assembling the Right Team

Save yourself from landmines and liabilities with the right key players in your real estate transaction.



Environmental Engineer
Your environmental engineer helps you evaluate properties for potential environmental issues.



Contractor
Your contractor oversees the construction process and helps you understand construction costs.



Assembling the Right Team Who to call when buying or leasing commercial property



Banker or Mortgage Broker
A banker can help with financing, purchases and tenant improvement build-out. A mortgage broker underwrites your financing and accesses multiple lenders.



Commercial Real Estate Broker
A commercial broker should understand your goals and scour the marketplace for optimum properties. Your broker will help you with property tours, letters of intent, negotiations, and proposals.



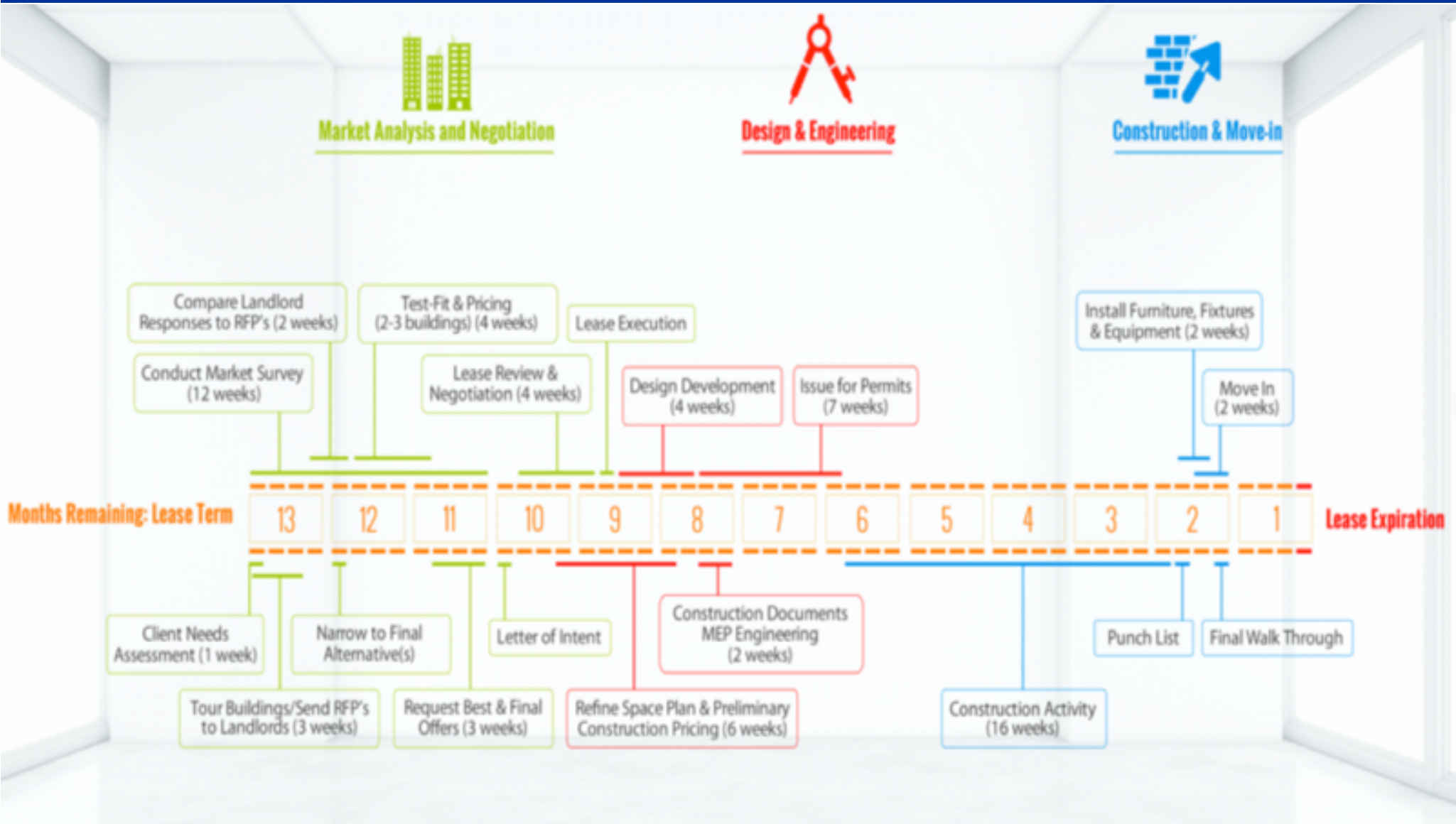
Architect
Your architect will assess your needs and work with you on the interior and exterior design of your space.



CPA/Financial Advisor
Your CPA or financial advisor will help you sort out your finances to determine what you can afford, as well as work with your banker or mortgage broker to provide necessary information.



Real Estate Lawyer
A commercial real estate lawyer will draft language in the lease or purchase agreement that protects you and helps get the deal closed.



“Rental Rate does not equal Occupancy Costs”

- ◆ Rent (Net Rental Rate + Operating Expenses)
- ◆ Tenant Improvements (Tenant Build Out Costs * less Tenant's Improvement Allowance)
- ◆ Parking
- ◆ Overtime Air

- ◆ Assignment & Subletting
- ◆ Renewal Option
- ◆ Preferential Rights (Right of First Refusal, Right of First Offer and Expansion Rights)
- ◆ Termination Options and/or Contraction Options
- ◆ Signage
- ◆ Relocation Provision
- ◆ Other: Credit Enhancement & Personal Guaranty

Cost to Replace vs. Renew Tenant

Assumptions:

Annual Rental Rate = \$35.00/sf

Operating Expenses = \$12.00/sf

Lease Size: 20,000 square feet

Time to Replace Tenant = 6 months

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Renew Tenant

Lost Rent	\$0.00
Operating Expense	\$0.00
Tenant Improvement Allowance	\$10.00

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	Renew Tenant	Replace Tenant
Lost Rent	\$0.00	\$17.50
Operating Expense	\$0.00	\$6.00
Tenant Improvement Allowance	\$10.00	\$35.00

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Assumptions:

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Lease Size: 20,000 square feet

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	Renew Tenant	Replace Tenant	Difference
Lost Rent	\$0.00	\$17.50	(\$17.50)
Operating Expense	\$0.00	\$6.00	(\$6.00)
Tenant Improvement Allowance	\$10.00	\$35.00	<u>(\$25.00)</u>
			<u>(\$48.50)</u>
			<u>20,000 sf</u>
		Cost to Landlord	<u>(\$970,000)</u>

Leverage is the Key to Negotiating the Optimum Lease and is Gained by...

- ◆ Time...Start the process at least 12 months prior to lease expiration
- ◆ Know the landlord with whom you are negotiating (REIT, Institutional, Investor, etc.)
- ◆ Know the market and what are market terms (free rent, TI Allowance, etc.)
- ◆ Leave your emotions at home
- ◆ Have 2-3 available buildings as back up options
- ◆ Tell the story of your company and why you are a good fit for the building
- ◆ Be willing to walk away

6% Commission generally always paid by the Landlord

Lease with
Tenant Rep

Landlord Agent 2%

Tenant Rep Agent 4%

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	Lease with Tenant Rep	Lease with No Tenant Rep
Landlord Agent	2%	6%
Tenant Rep Agent	4%	0%

Hire a commercial real estate broker because you will receive all of the advantages at **NO COST** to you.

Assemble the right team prior to needing their services.

Create and use **LEVERAGE** by allowing yourself **TIME** and starting the process at least 12 months prior to your lease expiration.