

SECURE YOUR SPACE

3 initial steps for a successful commercial real estate lease negotiation.

BY BRAD RUTHER



REAL ESTATE EXPENSES

are typically the second highest fixed cost for most companies, behind employee wages and benefits. Whether a vetpreneur needs office, industrial or retail space, the objective remains the same – obtaining space that enhances real estate’s ability to serve as an enabler for the organization to execute its platform, while minimizing occupancy costs and risks and increasing workplace flexibility and productivity. The commercial real estate leasing process is long and complex. This article

outlines some of the most important steps in the leasing process, which vetpreneurs must take prior to examining options in the real estate market.

DEFINE YOUR REQUIREMENTS

Conduct a thorough needs analysis on the front end that is in sync with your overall mission. While real estate is a loss item on your balance sheet, it should be viewed through the positive prism of obtaining space that both increases and maximizes revenue. There are a myriad of fundamental questions for vetpreneurs to evaluate internally.

“What do we need for

tenant improvements? How should our space reflect our culture? What changes do we anticipate in our business that will reflect the length of lease we are willing to sign? Do we anticipate growth and need a right of first refusal or an expansion option?” For a potential lease renewal, these questions also include, “Can we improve efficiencies to create a more ideal work environment for our teammates? Are there changes we can make to our space configuration? Can we benefit from updated technology infrastructure?”

Monetizing what your company needs to maximize revenue growth and bridge the gap between potential

revenue and its bottom line is the first step in the leasing process. Focus on how you need your space to foster revenue growth – do not focus on rent first. The rent will fall in line.

BEGIN THE PROCESS EARLY

Use backwards planning, make a timeline, and adhere to it. Properly negotiating a lease takes a great amount of time. Use time to your advantage. Your backwards planning should start with the desired date of your lease commencement or relocation, followed by all the steps needed to prepare for a move. Analyzing these steps will ensure you are pre- ▶



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►pared 9-12 months in advance, and you will generate leverage and confidence with your negotiations before they even start. Researching your options, touring properties, obtaining proposals (along with obtaining space plans per your requirement) can take three months, finalizing business terms and negotiating a lease can take three months, and constructing new improvements can take another three months. Allow for a generous amount of time for unexpected delays in the leasing process. A well-formulated plan will also enable you to not only obtain the economic terms you deserve, but also enable you to negotiate “tenant friendly” lease language.

ASSEMBLE THE RIGHT TEAM

As your company is in the business of generating revenue, outsource consultants so you can focus on your core business. Hire a real estate broker in order to shape the battlefield. A good tenant broker will know how to leverage your requirement and create competition amongst landlords, resulting in economic savings and better lease language. Your income stream pays all commissions, so why not have it work for you? In a typical commercial real estate transaction, there are two parts to a commission (the landlord’s broker gets one piece and the tenant’s broker

gets the other piece), and the landlord is normally responsible for paying it. Sometimes tenants believe they will get better economic terms by not using a broker, since the landlord does not have to pay a fee to the tenant broker. However, this is not true – if a tenant does not use a broker, the landlord’s broker gets the entire fee.

Besides engaging a broker, you should also have other experts on your team. Hire a commercial real estate space planner, racking expert, or architect on the front end to assist you with your “objective” of enabling real estate to serve as a revenue multiplier. Engage a commercial

real estate attorney, hire your own general contractor for any required improvements (as this is often an additional profit center for landlords, who pay themselves above market fees on overhead and supervision), hire a mover, etc. If you do not have preferred vendors in these other areas, your broker should be able to provide several for you to vet – and may even assist you in the interview process. Assembling the team is an important step in preserving your combat power so you can focus on revenue growth, while also adding leverage to any lease negotiation. ☺

STEPS TO A GOOD NEGOTIATION

