

# WIN THE BATTLE

How you can apply the Principles of War to a lease renewal.

BY BRAD RUTHER

Lease renewal time is an important stage in the life cycle of every corporation. Regardless of whether you lease office, industrial or retail space, whether you have one location or hundreds, or if your corporation is a local organization or an international corporation with AAA credit – the time for a lease renewal presents you with an opportunity to assess your position in your geographic market, revisit the commercial real estate market, and leverage your market knowledge and market presence to negotiate a better lease agreement. The purpose of this article is to apply the Principles of War (as defined by Army Field Manual 3-0) to the tenant's lease renewal process. As an experienced commercial real estate broker, West Point graduate and Iraq veteran, I believe these principles are as applicable to the lease renewal process as they are in combat.

**OBJECTIVE:** Direct every military operation toward a clearly defined, decisive and attainable objective.

This principle drives all activity for the organization. With real estate expenses being the second highest fixed cost for most companies (behind employee wages and benefits), it is vital that real estate serves as an enabler that assists you in achieving your overall mission. While real estate is a loss item on a company's balance sheet, it should be viewed through the positive prism of obtaining space that both increases and maximizes revenue.

Lease renewal time is the perfect opportunity for you to ask yourself, "What do we need in order to improve efficiencies and create the ideal work environment for our teammates? Are there changes we can make to our space configuration? Can we benefit from updated technology infrastructure? What do we need for tenant improvements? Does our space reflect our culture? What changes do we anticipate in our business that will reflect the length of lease renewal we are willing to sign? Do we anticipate growth and need a right of first refusal or an expansion option?"



There are a myriad of fundamental questions for companies to evaluate internally, but a company must conduct a needs analysis on the front end that is in sync with the company's overall mission. Monetizing what an organization needs to maximize revenue growth and bridge the gap between potential revenue and its bottom line is the first step in any renewal process. Focus on how you need your space to foster revenue growth – do not focus on rent first. The rent will fall in line.

**OFFENSIVE:** Seize, retain and exploit the initiative.

The surest way to achieve decisive results is through offensive operations. For a lease renewal, start the process early and stay abreast of the market. Be proactive and not reactive. As the commercial real estate market and the economy change, a company may be in the position to renegotiate its lease early. Continually monitoring the market enables you to take advantage of openings or opportunities for savings. Large tenants with strong credit are sometimes able to renegotiate the terms of their leases two years early.



**MASS:** Concentrate the effects of combat power at the decisive place and time.

Commanders mass the effects of combat power in time and space to achieve both destructive and constructive results. Massing in time applies the elements of combat power against multiple decisive points simultaneously. Applying this concept to a lease renewal, after you conduct market tours, you should send out the same request for proposals to other landlords and your current landlord and counter these proposals at the same time.

Massing in space concentrates the effects of combat power against a single decisive point. For your renewal, the single decisive point for massing in space is the letter-of-intent (LOI) that you send to your landlord, outlining the terms and conditions that you find acceptable in moving forward with a new lease or lease amendment. You will have "shaped the battlefield" through massing in time, and the LOI will represent one last push to obtain the economic or lease language terms that your landlord has previously not agreed to. Both methods of massing should be employed in the lease renewal process.

**ECONOMY OF FORCE:** Allocate minimum combat power to secondary efforts.

Commanders should allocate only the minimum combat power necessary to shaping and sustain operations so they can mass combat power for the decisive operation. 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 be discreet, know how to leverage your renewal and how to create market awareness for your "potential relocation." This involves a lot of work behind the scenes that may not be visible to you, but is necessary to shape the battlefield.

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.

**MANEUVER:** Place the enemy in a disadvantageous position through flexible application of combat power. Maneuver concentrates combat power and keeps the enemy at a disadvantage through

preserving freedom of action, reducing vulnerability, and exploiting success. For a lease renewal, your concept of maneuver should include a market tour or several market tours, soliciting proposals from short list buildings, and negotiating with several potential landlords. Your landlord should be treated as any other landlord and receive the same request for proposal.

Since landlords make 20-30% more money over the life of a renewed lease than a new lease, one of your goals must be for your landlord to treat your renewal as a "new deal." If you maneuver properly, your landlord will be placed in a disadvantageous position (believing you will relocate), and you will be able to generate "fair market terms."

**UNITY OF COMMAND:**

For every objective, ensure unity of effort under one responsible commander.

Applying your force's "full combat power" requires unity of command. There should be a clear internal chain of command for your company, with personnel assigned to specific roles that support the CEO's intent. Only keep key executive personnel "in the know" on the status of the negotiation. Loose lips sink ships. ☹

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