



Society of Industrial and Office REALTORS®

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**Tenant Representation
in the Commercial Real Estate Industry**
Helping you avoid pitfalls and uncover economic opportunities

Selecting space for your organization – and successfully negotiating a lease you can live with – are complex, time-consuming tasks, full of potential pitfalls. The pitfalls only multiply if you undertake the process on your own – without the benefit of an experienced commercial real estate professional serving as your tenant representative.

Hiring a tenant representative who acts on your behalf can eliminate many of the hassles in site selection and negotiation. It can prevent potentially disastrous missteps. And it can cut much of your real estate expense. More importantly, aligning yourself with an experienced tenant rep can turn up real economic opportunities and help turn your space into a strategic asset.

Working on Behalf of Tenants, Not Landlords

Many commercial real estate professionals exclusively represent tenants. Such exclusive tenant reps never work on behalf of owners and developers. Other real estate professionals divide their practice between both tenant and landlord representation.

The Society of Industrial and Office REALTORS® reports that more than half of those who have earned the Society's coveted professional designation – "Specialist, Industrial and Office Real Estate" – have practices that include tenant representation.

Tenant reps have made a name for themselves during the past 10 to 15 years, since real estate agency laws required real estate brokers to disclose that they are working on behalf of the landlord, not the tenant. Your goal in working with a tenant rep is to obtain true economic savings and secure space on terms that best serve your needs over the life of your lease. While working on your behalf, a good tenant representative should generate savings and benefits that far exceed the cost of his or her professional compensation.

From Needs Analysis to Exit Strategy

You can expect a proactive tenant representative to:

- **Analyze your space needs.**

The tenant rep can assist you in calculating your actual need for space and determining your particular layout needs. This can prevent you from wasting time on property negotiations that are not right for your organization. Most importantly, it can prevent you from leasing too much space. The landlord has no incentive help you economize on space and save money

- **Investigate all available properties and determine which are the most appropriate for your needs.**

This involves more than scanning the available listing services. A professional tenant rep can identify a property that is not an obvious choice to meet your needs. This could result in lower rental rates and space that is otherwise better suited to your needs.

- **Create a bidding war among several landlords for your business.**

A good tenant rep can launch a successful bidding war and prevent you from

being a “captive audience” to one developer. The optimal number of bidders is usually three. Even if there is one property that you and your representative agree is the best, creating a three-way competition will optimize your negotiating position. The result can be concessions and incentives that exceed the norm in the marketplace, such as free rent for several months or an allowance for tenant improvements (TIs).

- **Protect you during lease negotiations so that you come away with terms that meet your present and potential future needs.**

The tenant representative knows all the ins and outs of real estate transactions and can help you avoid possible pitfalls. For example, a tenant representative would ensure you retain such options as subletting in case you eventually shrink your organization or outgrow the space. Options for an exit strategy are overlooked at your peril.

- **Serve as a buffer between you and the landlord.**

A tenant rep can act as the “bad guy” when necessary during negotiations. At the same time you are securing major economic concessions, relying on a tenant rep to act as “bad guy” can keep your relationship with the landlord cordial. You may need the good will later on.

- **Identify lease provisions that could cost or save you money during the lease term.**

These often are hidden in the document and are easily overlooked.

- **Handle the paperwork and other details of the lease negotiation.**

Having a tenant rep prepare all proposal requests and letters of intent can

help to resolve issues before the final lease is prepared. A professional tenant rep is familiar with real estate forms and documents and can help you avoid disasters by signing something by accident or out of ignorance.

- **Settle disputes that arise even after the lease is signed.**

The tenant representative can serve as an experienced set of ears and eyes to verify the details of a transaction. The rep's transaction files can provide the documentation necessary to clarify what was said and done during the negotiation.

Spotlight the savings

When you see rental rates quoted for space, those rates include the marketing costs for any leasing representative or for the developer's in-house marketing. Compensation for the tenant representative is also part of the stated price. A good tenant representative should be able to save you that amount and more.

Here are a few examples of the savings a tenant representative can win for you:

- **Ensure you get the most value in any improvement allowances.**

For example, without good representation, the tenant may sign on to an improvement allowance of \$50 per square foot, not knowing that the actual market price for such work is \$30. The tenant representative knows the market and would negotiate that any remaining funds be applied to lower the rent. (For a 60,000 sq. ft. building, that would mean a savings in \$1.2 million!)

- **Safeguard you against signing onto any provisions that run against your economic interest.**

For example, many leases tie rents or expenses owed to the landlord to the consumer price index (CPI) or some other index. Landlords will likely ask that these rents or expenses float with an index. The tenant representative can ferret out such a provision and negotiate a CPI cap for the lease.

- **Define lease terms to benefit you.**

If your lease holds you responsible for ongoing maintenance, as many do, the tenant representative can assure that the definition of ongoing maintenance does not include the repair of pre-existing deficiencies, such as roof problems that may already have plagued the building. The tenant rep will know how to look at the move-in condition as a benchmark indicating the point at which your wear and tear commences.

- **Win concessions that anticipate your actual needs.**

For example, a tenant representative can negotiate to receive a rent concession for “moving and set-up time for racking.” This means your lease begins, but you won’t pay rent during the time it takes to become operational - move in, set up racks, etc. Because you will still operate out of your old space during moving and set-up time, this concession prevents you from paying double rent during the overlap period.

The tenant rep is a specialist in selecting space and negotiating leases. Making effective use of a real estate professional will generate cost savings and give you space and terms you can live with during your entire lease.

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