

From the preface:

The purpose of this book is to place the art of negotiating for office space in an entirely new context. Its thesis is that value is created in an office lease by the user, not by the space. Thus, it is for office tenants and their representatives that it was written.

I created Pre-Lease Analysis & Negotiation (PLAN) in order to provide office users with a strategy that recognizes their significance and maximizes their strength, while preserving the principles of fairness. It levels the playing field upon which negotiations take place. It prevents eleventh-hour surprises and concessions. It produces savings in both time and legal fees. Most importantly, it properly positions the *user* as the object of value in the transaction.

Excerpt --Pages 53-57

Negotiating the proposals

Once all the proposals have been received, and verified where necessary, the components of future occupancy cost can be projected. My firm's method of doing this is to compute the "Annual Weighted Cost" for each proposed lease. This is a complex but critical step; its theory and mechanics are covered separately in Chapter 3.

Based on image, operating efficiency, cost and other relevant considerations, the number of viable candidates for relocation should now be reduced. Having narrowed the field, you can hold further negotiations with each landlord to improve the terms of the transactions they have proposed. As these terms change, they should be reflected in revised financial analyses, so the competing transactions can be continually compared and used as leverage against one another. Competition among the landlords should be maintained throughout the process. In these negotiations, there are no issues that should be considered "out of bounds"; in real estate *everything* is negotiable except the location of the property.

One issue frequently and needlessly overlooked by tenants is the loss factor. The number of usable square feet in the premises is a physical constant, but the method used by the landlord to translate that figure into "rentable" area can be modified.

A case in point is a Chicago bank my firm represented, which was expanding and consolidating its presence in another city. The bank had projected its requirement between 55,000 and 65,000 usable square feet, depending on the configuration of the space. One of the units under consideration was a two-floor package in a new building. Our pre-lease presentation set forth the full range of terms acceptable to the tenant. After receiving the landlord's proposal, and after several rounds of negotiations, we were able to reduce the rent by 15%. Rent escalation was to be based on the penny-for-penny wage/fringe formula. These terms reflected the prevailing market conditions. Before recommending agreement to the lease package, though, we took another look at the floor sizes.

According to the landlord, the two floors totaled 82,000 square feet in rentable area, but the usable area was only 58,220 square feet. The loss factor was 29%, an unreasonably high figure which we set out to reduce.

We indicated to the landlord that our client would be willing to lease the space on the economic terms specified if the rentable area was closer to the actual size of the floors. We buttressed our argument with a complete physical analysis of the space, showing the usable square footage on each floor. The loss factor was far too high, we maintained, particularly since the building was well-designed and reasonably efficient. After a series of discussions, the landlord agreed to a loss factor of 17%, slightly below those in comparable properties. Landlord and tenant soon executed a 12-year lease with no other changes in terms.

Although it was physically unchanged, the leased space had been cut in rentable area from 82,000 to 70,145 square feet. This reduction affected every financial component in the lease package to the bank's benefit. Base rent and the rent-inclusion charge for electricity were both multiples of rentable area. The porter wage escalation would have added \$1 of rent *per rentable square foot* for each dollar in hourly cost increases. Simply by reducing the loss factor, our client's net occupancy costs were cut by 14.5%, for a total savings over the term of the lease in excess of \$6 million. Table 2.1 shows the components of occupancy cost for each year of the lease, both before and after the change in loss factor.

The cumulative effect of these savings is shown in Figure 2.3 on page 56.

In some cities, the loss factor is the most insidious element in a leasing transaction. It is hidden from the tenant's view. It is impossible to verify accurately. It is often determined arbitrarily, based on what the landlord feels the market will bear. *But it is not engraved in stone.*

After a reasonable period of comprehensive negotiations, a cut-off date for final proposals should be established. Landlords still in the competition are notified that they have only one more chance to attract you to their properties. They are also assured that you will not attempt to renegotiate the terms of this final proposal. It is important that this promise be kept since the credibility of PLAN and the reputation of the negotiator both depend on it. If an attempt is made to renegotiate a final proposal, an unnecessary antagonism with the landlord will also be created, even if the new demands are met.

While it is reasonable for landlords to object to negotiating a final proposal, they should understand that the first proposal is usually subject to improvement. Recently, one landlord objected when I asked him to do this. “You’re asking me to negotiate against myself”, he said. I responded that he had three choices: improve the initial proposal; worsen the initial proposal; or let it stand as his final offer. “You know best what you need from a tenant to make a good deal in your own building”, I explained, “and you also know you’re competing with others. I’m only asking you to make sure your proposal is the best one you can offer my client. That way, you’ll know that the deal just wasn’t doable if it isn’t made, and that it’s a good one for both sides if it is made. Either way you’ll feel comfortable with the outcome.