

Voit

REAL ESTATE SERVICES

LEASING GUIDE FOR COMMERCIAL PROPERTY OWNERS

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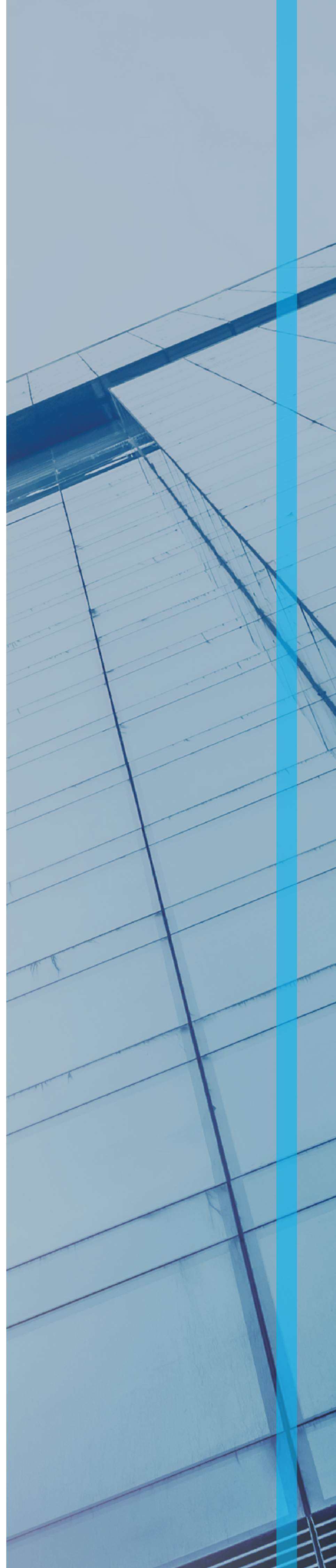
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GETTING STARTED

The value of your commercial property, whether it be an office building or industrial warehouse, is determined by the quantity and quality of its current and potential income stream. The terms and conditions of the leases you execute to produce that income are driven by market metrics like vacancy and absorption which are a reflection of the balance between supply and demand at any given point in time.

That balance is influenced by a wide variety of macro and micro economic factors, many of which have little to do with real estate as an asset class. Add the fact that market conditions are in a constant state of change, and it is easy to see how commercial property leasing presents a significant challenge to property owners and the real estate professionals who represent them.



YOUR PROPERTY AND THE MARKET

In this brief guide to commercial property leasing, we focus on some of the more important issues, but we recommend that you seek the advice of your Voit Real Estate advisor for a comprehensive evaluation of your unique circumstances before making long term commitments to prospective tenants. Your situation is unique to you, and the leasing decisions you make should reflect your tolerance for and exposure to risk and how your property fits into your overall investment portfolio strategy.

Let's get started with some of the basics:

Market trends and conditions for industrial, office and retail properties are quite different from one another.



THE INDUSTRIAL MARKET

The industrial market has record-low vacancy, an aging inventory stock along with what seems to be insatiable demand from area businesses to either lease or acquire industrial space.

Many industrial market properties were built in the

1970's.



Lease rates have spiraled up to new highs and landlords have enjoyed and maintained a distinct negotiating advantage.

So, if you own industrial space, you'll be calling most of the shots.

THE OFFICE MARKET

The office market is facing more of a challenge because it was already softening before the pandemic.



The lockdowns forced the office-using business sector to send employees home to work utilizing technology to stay connected. The word Zoom means something a lot different than it used to.

The lockdowns are in the rear view mirror, but the work-from-home and hybrid work models remain front and center.

Nationally, slightly more than

40%

of the office-based workforce is back in the office.

MANY BUSINESSES ARE BECOMING LESS INCLINED TO PAY FOR SPACE THEY MAY NO LONGER NEED.

The entire design of the modern workspace is being re-invented and in many instances it means that companies will be able to achieve their goals for growth with less space than they have traditionally occupied.

THE COMPETITIVE POSITION OF YOUR PROPERTY

Objective knowledge of how your property fits into its competitive set is critical to making leasing decisions that optimize the return on your investment.

To make sure that you have adequate knowledge of the local market and your competition, we recommend that you have your Voit advisor arrange a personal visit to the properties in your submarket that are likely to be under consideration by prospective tenants who might also have interest in your property.

Building factors that are likely to be important to business owners looking for space:



CLASS



AGE



PRICE



CONDITION



PARKING



AMENITIES

Rank your property in each category, so you know where you stand when you get into the negotiation phase of a lease. Having first-hand knowledge of where you fit in terms of your competition will help you negotiate wisely and in a manner that reflects actual market dynamics.

THE COMPETITIVE POSITION OF YOUR PROPERTY

If you are leasing industrial space, you'll probably have multiple tenants pursuing your space and there will be very few other spaces on the market with yours.

Areas you will have more time and energy to focus on:



**PRICING YOUR PROPERTY
FAIRLY AND BENEFICIALLY**



**LEASE TERMS AND
OTHER CONDITIONS**



**TENANT
CREDITWORTHINESS**



**INTENSITY OF WEAR AND
TEAR ON THE PROPERTY**

If you own an older property with elements of functional obsolescence, your pool of eligible tenants will be smaller. It may be wise to price your property under that for premium properties to reduce your lease-up time and avoid lost rental income.

HOW TO NAVIGATE THE FIELD

A thorough understanding of market metrics and trend lines in your immediate submarket is critical to making good leasing decisions.

Variables that impact the balance of supply and demand:

- Vacancy
- Gross Absorption
- Net Absorption
- Leasing Activity
- New Construction

By taking the time to become fully informed before you take your property to the market, you'll know that your expectations are in alignment with prevailing market conditions, and you can move forward accordingly.

Lost rental income due to prolonged vacancies have a large impact on your property's value, so you are not only looking to secure the best terms, but also to complete the process in the shortest time possible.



STAY FOCUSED ON WHAT MATTERS MOST

An easy-to-understand way of establishing priorities is to put them into three categories:

1 WHAT YOU MUST HAVE

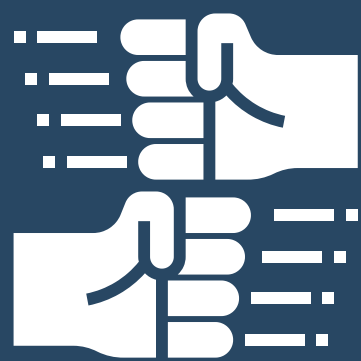
2 WHAT YOU WANT TO HAVE

3 WHAT YOU WISH YOU COULD GET

Being clear on these distinctions is very important in staying on track during lease negotiations. It will keep you focused on that which is most important to the overall performance of your investment and steer you away from digging your heels in on minutiae and risk losing good tenants.

STAY FOCUSED ON WHAT MATTERS MOST

No one gets everything they want in any negotiation, but you can usually get what is most important to you if you don't insist on winning every single item of negotiation.



**WINNING BECOMES
MORE IMPORTANT THAN
THE TRANSACTION.**

We see the harm in this all too often, as landlords with ill-defined priorities walk away from an otherwise qualified tenant over minor items that are unlikely to ever pose a problem.

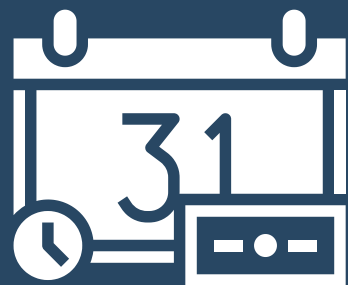
Put simply, with priorities properly established, you'll win more in the long run. So, don't sweat the little stuff like checking off all your boxes on your wishlist, and stay focused on the prize:



**A TENANT WHO HAS THE FINANCIAL
STRENGTH TO PAY THE RENT ON THE
FIRST OF EVERY MONTH.**

AVOID TARGET FIXATION ON PRICE

Every landlord wants to get the highest possible lease rate. This is quite understandable and we believe price is a very important component of any lease. However, it is not all-important and duking it out over a penny or two per square foot may not be in your best interests.



NEGOTIATING CAN BE TIME CONSUMING.



IN MOST INSTANCES TIME IS WORKING AGAINST YOU.

A 2,500-square-foot space at \$2.50 per square foot leases for

\$6,250

per month, or \$208 per day.

A ONE MONTH DELAY IN LEASING YOUR SPACE WILL COST ~7 CENTS / SQFT. PER MONTH OVER A 36 MONTH LEASE TERM.

So, keep your long term bottom line in perspective when it comes to negotiating price. The less time it takes to reach an agreement, the better off you're likely to be.

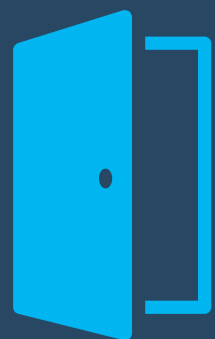
BE OPEN TO CREATIVE NEGOTIATIONS

There are literally dozens of potential negotiating points in an office or industrial lease. Market conditions and the unique characteristics of the parties combine to influence which ones become an active topic in any given lease transaction.

Your Voit advisor can really help you here, but there are some ways you can come prepared:



You and your prospective tenant both have your needs-wants-wish lists in order.



Be as open as possible to minor changes to your lease document. This helps prospective tenants feel that they are being listened to and treated fairly.



Look at the big picture when it comes to actual dollar costs. A small adjustment now doesn't mean an overall loss.



Be willing to sweeten the pot on the front end to get a hesitant tenant to sign a lease for an extra year or two.

Look for balance between what you are looking for and what a desired tenant is able to do and keep your needs-want-wish list close by for quick reference. It will keep you on track.

GETTING YOUR PLAN TOGETHER

Every commercial property investor should have an updated strategic investment plan. That plan should be in sync with the investor's entire portfolio, including non-real estate assets.

What to keep in mind when creating your plan:

- 1** Be aware of how your commercial property fits into your overall scheme.
- 2** Avoid having too many leases rolling in the same year to reduce the chance for wild swings in your rental income.
- 3** Look for tenants with strong credit, as they will improve the quality of your cash flow and lower your risk.
- 4** You may be wise to offer longer leases and more favorable terms in return for solid financials as a way of strengthening your overall income stream.
- 5** Remember that lost rental income is the biggest yield killer of them all.



USE STANDARD DOCUMENTS WHEN POSSIBLE

For decades, AIR documents have been the standard for industrial transactions, and are now more widely used in office transactions than ever before.

The AIR standardized industrial leases and purchase contracts have been around since the 1960s and AIR has been updating them to reflect changes in laws and regulations ever since. Thus, when using AIR lease documents, you can be assured that you and your tenant will have a base agreement that is current in all respects.



Using a standardized lease and supplemental documentation for such items as personal guarantees, rental adjustments, options and other addenda, streamlines negotiations and saves precious time.



Chances are your prospective tenant is already familiar and comfortable with an AIR lease, and will be more willing to sign another one without tearing it to pieces as they might do if they are presented with an owner's custom lease.

The use of standardized agreements that both parties are familiar with reduces the chance for trouble during the term if an issue pops up. Also, fewer items open to negotiation will help you develop a positive relationship with your prospective tenant.

HIRE A PROFESSIONAL TO REPRESENT YOU

While this may sound self-serving, we strongly recommend that you hire a professional to represent your interests, even if you choose a firm other than Voit.

Benefits of hiring a specialist in your market area:

- You always have the latest market intelligence.
- You will have the maximum exposure for your property.
- You will have access to key demographics for tenants.

Some landlords decide to handle their own leasing, but unless they already have their own infrastructure that mimics that of a full-service brokerage firm, the result is likely to fall short of expectations.



Unless you have ample time to dedicate to marketing, you will get better results by hiring a professional.



If you represent yourself, chances are the tenant will have his own representation and you will pay a full brokerage commission anyway.



An advocate knows how to negotiate the most favorable terms possible for your property.

**At Voit Real Estate Services,
our clients are our top priority.**

**We recognize that finding and securing
tenants for your commercial property
is key to your success as a business owner.**

**Partner with one of our brokers today
to see how we can make your real estate
goals a reality.**

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