



IN THE NEXT ISSUE:
Amortizing Costs Onto Your Rent

What to keep in mind when costs are amortized onto your lease

RENT COMPARABLES & RENEWALS

TIPS, TRICKS AND COMMON MISTAKES

Insight on why “rental rate comparables” are often ignored by top real estate experts during lease renewal negotiations.

Typically one of the most common requests that tenants and landlords make during renewal negotiations is for the procurement and review of “rent comparables”. While research of recent transactions provide statistical benchmarks and some insight on market conditions, we’ve transcribed a recent conversation between two real estate experts that provide some technical insight.

Tenant Advisor (TA): Hey Jim, it's Jennifer Jones calling. Burgerworld has retained us to manage their renewals and I wanted to talk to you about a location in Southridge that is nearing the end of the lease term.

Landlord (L): Oh yeah, that lease is coming up at the end of next year isn't it? Its amazing how quickly 10 years goes by. How is your client performing there Jennifer?

TA: Decent but not spectacular. It's a middle of the road store and somewhat profitable, but operating costs and taxes have escalated way more quickly than inflation. The industry is very competitive and BurgerPlanet just opened up down the street which really impacted our sales a couple years ago.

L: My records show they have until next April to exercise their option.

TA: They probably won't exercise their option since there is a “not less than last year's rent” clause in the renewal and the gross rent has escalated much more quickly than sales growth and profitability.



Landlord: Well it's a decent space with a drive-thru and I'm sure there are lots of other restaurants that would want to lease it Jennifer. The current rent is only \$36.00 per square foot which is certainly within the range of "market rent". I'm looking for a modest bump.

TA: I totally understand Jim. The restaurant business is very competitive and there are certainly other groups that would probably be interested, but there's no point in operating a business when it's not profitable. If we could reduce the rent a little, I think they'll stay.

Landlord: Jennifer, you've got to be kidding me. I like their operation and their covenant is excellent, but I can't go down in rent. It's not in my budget and I can get plenty of rent comparables that show a much higher rate. In fact, I'll obtain some.

TA: Well, you are obviously going to go and find all the highest comparables that were poorly negotiated by tenants to support your position and then I'm going to go and find a bunch of rent comparables that were well negotiated by tenants to support my position. Then what?

Landlord: My next logical step is to figure out who I can re-lease / backfill the space to and at what terms. I'm going to try and leverage the fact you won't want to spend money moving. I might also try to figure out your potential relocation options.

TA: Exactly. If you have lots of backfill options, you have more leverage. If I have lots of relocation options, I gain leverage. **Either way, it's your backfill options and my relocation options that largely determine the renewal terms and not rent comparables. My goal is to ensure my clients do not pay more than what you could obtain from a new tenant and understand your options.**

TOP SECRET TIP

Instead of focusing on rent comparables during renewal negotiations, experts strive to obtain similar terms and equivalent value in which the landlord would provide to a new (replacement) tenant. This may include considerations for free rent, allowances and other incentives that are typically included in new lease transactions.

A Little About Us:

We are a specialized Commercial Real Estate firm that provides advisory services for tenants. We focus on companies where location, position and/or rent has a tangible effect on financial performance. Our mission is to help our clients increase profitability through real estate.

We have regional offices in Vancouver, Toronto and Calgary, with partner offices in Edmonton, Winnipeg, Montreal and the Maritimes. Our account executives combine industry leading programs, process and analysis with experience to ensure our clients obtain and maintain great locations at favorable terms.

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