

In the driver's seat: Tenants have the upper hand in lease deals

A soft market has shifted the balance of power in real estate negotiations

Birmingham Business Journal - by [Cindy Riley](#) Contributor

With vacancy rates continuing to climb, the recession has shifted the balance of power in the commercial real estate sector.

Gone are the days of rising rents and new construction bringing more square footage to the market. Tenants are in the driver's seat.

And local commercial real estate brokers have taken notice – resulting in a more aggressive approach to landing new tenants and securing new leases.

John Coleman, vice president of Graham & Co.'s industrial group, said the softened market for commercial real estate has presented opportunities for savvy tenants to cut costs and has given them more leverage in the negotiation process – creating options such as free rent for a specified period of time, tenant improvement dollars or moving allowances.

“The market has proven beneficial for tenants looking to lower their occupancy cost,” he said.

Coleman said the recession has also presented buying opportunities for companies that may be interested in purchasing their own spaces.

Some sectors have been hit harder than others.

“I think retail has probably been hit the hardest, which means landlords are having to fight harder to keep tenants,” Coleman said.

Bryan Holt, vice president of Retail Specialists Inc., said banks have put landlords under pressure to stabilize their properties. He said banks often have a conflicting influence on rents.

“Many landlords are holding out to try and achieve rental rates that will help them cover their mortgage long-term,” he said. “They're still reluctant to cut rates below what it takes to cover their mortgages.”

Holt said retailers with the capital to make improvements can find great deals because of the market.

He said junior anchor spaces that were recently vacated and last rented for \$15 or \$16 per foot net are now leasing for \$4 to \$5 per foot for tenants who can take the property “as is” and can make their own modifications.

Holt said some national retailers are also taking the opportunity to negotiate a high number of leases.

“Starbucks is a former client and I'm aware of their campaign to negotiate nearly every lease in their portfolio over the last 14 months or so,”

he said. “They've met with varying degrees of success. In some cases, panicked landlords gave in and reduced rents by 25 percent or more.”

Jay Turner, vice president of real estate for **Books-A-Million**, said the recession has had a number of impacts on the retail real estate industry.

He said it created an oversupply of shopping center space and a halt to new commercial developments.

“Like any retailer, we get the opportunity to negotiate for market rents whenever a store lease is due to expire or renew, and when evaluating a kick-out,” he said.

Walter Brown, of Graham & Co.'s office division, said there has been a disconnect between rent prices and vacancy rates in the Birmingham area since the recession began.

He said the area currently has an office vacancy rate of more than 15 percent, up from 8 percent in 2008. But Brown said rents have held steady in the area.

That disconnect results from the concessions provided to tenants, such as free rent, which could be up to 10 months on a five-year lease.

“Many tenants with two or three years remaining on their leases are negotiating with landlords for favorable rents and concessions, in return for the further extensions of their lease term,” he said.

“Many have been successful in renegotiating their base year operating expense pass-through that equates to savings in their annual



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'Landlords are having to fight harder to keep tenants.' John Coleman, Graham & Co. Inc.

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occupancy costs.”

Philip Currie, managing director of **J.H. Berry & Gilbert Inc.**'s office services group, said there are several things tenants can do to get the best deal possible in the current market.

“Tenants appear to be considering space that doesn't need a significant amount of improvements made to the suite, as this affects not just the rent, but the length of the term,” he said.

He said tenants are also inquiring about whether furniture is in place or whether the landlord will help cover moving costs.

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