



Renewing your lease?  
Don't Be a "Captive Audience"

FOR COMMERCIAL TENANTS, THE BEST WAY TO UNDERSTAND HOW LEASE RENEWALS WORK IS TO LOOK AT HOW WIRELESS PHONE COMPANIES TREAT NEW VERSUS RENEWING CUSTOMERS!

Phone companies follow a simple rule. New customers get all the good stuff, like free or discounted new cell phones and calling plans with millions of free minutes.

What do renewing customers get?

Somewhere between nothing and far less than the new customer? In cell phone service, it's an **outrage** that a renewing customer doesn't get the same attractive deal as a new customer.

In real estate, a tenant that renews gets even shabbier treatment by their landlord. With a lease renewal, the financial future of the company is at stake, perhaps even its ability to viably compete.

A landlord may give new tenants free rent up front, lower the rent per square foot (than the renewing tenant) and the space built out for free.

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## **The renewing tenant gets a kick in the head and a rent hike over his existing lease.**

Here's another question for businesses that have a lease expiring in the near future.

If you knew the manager of a particular supermarket, would you go out of the way to pay 20% more for your groceries? This is the same way that renewing tenants allow landlords to treat them. It's amazing how many smart business people will choose to "roll over" on their expiring lease and not become market savvy because the landlord or managing agent is "very nice".

In fact there are three things that landlords can count on when it comes to lease renewals:

Tenants don't like to move. About 70-80% of them renew. Tenants like to negotiate the deal themselves. Tenants don't realize that there's a way to get the same space for less money on renewals.

## **Landlords know this and love it!**

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There are, of course, many compelling reasons not to move. It's not only disruptive to business-I hate boxes!-It's also costly. Typically moving costs can range from \$4/sf and up.

So, as they say the Shakespeare Moving Company, "to move or not to move-that is the question."

Realistically a company should only move if:

Space is too large or small

Location is no longer good

Building services is unacceptable

So, if these factors don't apply to your situation, your next step should be to saunter down to the manager's office or the landlord and reenlist, right?

## **Wrong!**

Too often, tenants like to renegotiate the deal themselves because:

Landlords make them feel they'll take care of them

Tenants don't want to upset their relationship with the landlord

Tenants think they are good negotiators

Tenants save money on the broker's fees

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# THE SCHENK COMPANY, INC.



~~Unfortunately for the tenant, but very fortunately for the building owner, landlords view their existing tenants, as a “captive audience.”~~

Remember how we said the cell phone companies work?

A landlord can set his watch by the fact that most tenants don't like to move and will contact him about renewing their lease. Landlords also know from experience that Mr. or Ms. Tenant won't pursue other options or get knowledge about current office leasing market, and thus the tenant will have no leverage and is likely to agree to a modest rent increase.

Meanwhile, the landlord take the commission he would have paid a broker representing you and charges it back as an expense ,because a commission is factored into rent whether you use a broker or not!

**If your rent is a major portion of your overhead, as it is in most businesses, the best way to approach renewal is with a market driven strategy.**

While that strategy sounds a bit high falutin, consider that all lease deals are based on what is happening in the market. While it may feel good to negotiate yourself a .75/sf annual increase to renew your existing \$18 lease, the current market is \$16 and offering improvements and free rent concessions!

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