

Corporate Real Estate Commentary

How to Capitalize on Today's Tenant-Friendly Real Estate Market *Using Real Estate to Increase Profitability and Competitive Advantage*

by Tom Driscoll

Bay Area tenants with leases expiring in the next 18 months have a "once-in-a-lifetime" opportunity.

Real estate has a major impact on business performance.

Never before has the Bay Area commercial real estate market been so far out of equilibrium. As a result, a select group of Bay Area companies has a "once-in-a-lifetime" opportunity to exploit this situation and ensure that real estate supports business operations and enhances performance. With more than 50 Million square feet of available office and R&D space and net absorption of space flat at best, there has never been a better time for companies who lease real estate to:

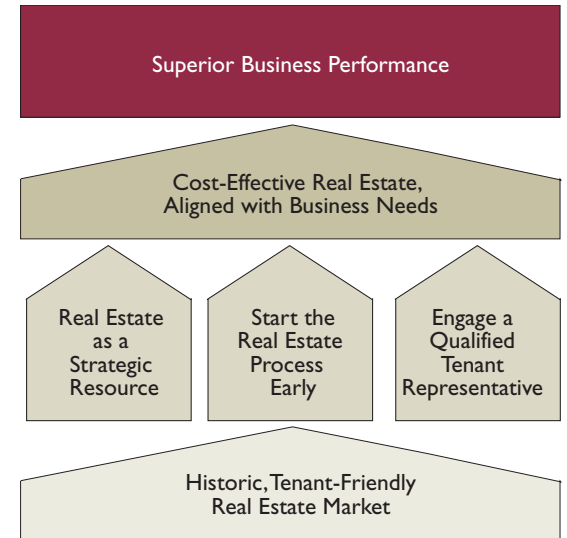
- **Reduce real estate costs**
- **Lock-in low lease rates for the long-term**
- **Align real estate use with changed business practices.**

Who are members of this select group? The answer: those companies with leases expiring in the next 18 months. By taking advantage of this opportunity, companies in this position are positively impacting profitability in a sluggish economy and creating a competitive advantage. Unfortunately, many companies don't realize the opportunity exists and will fail to act, or will act in a way that doesn't fully exploit the opportunity. And, some cannot act because they have leases that expire well into the future. Acting now is important because as the real estate market improves the value of the current opportunity will diminish, proportionately.

This article is designed to alert companies to this opportunity and provide insight on how to take advantage of it. We've identified three "Critical Success Factors" that must be met in order to maximize the opportunity.

Understand Real Estate's Impact on Business Performance

It is extremely difficult to optimize real estate as a business resource unless its' importance is understood and embraced by senior management. It is a mistake to view real estate as simply a place to do business and a cost of doing business. Real estate impacts business performance because it is almost always a company's 2nd highest operating



expense and along with people and technology, a primary factor of production. Real estate plays a major role in three key business drivers.

- **Finance** - Real estate impacts cash flow, operating expenses, profitability, financial ratios and metrics, liquidity, debt, taxation, financial reporting, etc.
- **Operational Flexibility and Control** - The ability of a company to move expeditiously to expand, contract or take a new product to market is either enhanced or limited by real estate.
- **Productivity** - Real estate impacts productivity in terms of: the promotion of employee collaboration, privacy and access to resources; employee comfort, health, safety and recruitment and reflecting the desired company culture.

Start the Real Estate Process Early

Companies with leases expiring within the next 24 months should begin to investigate the possibilities today! There is absolutely no reason to delay. Every day of delay costs money, because:

- The real estate process takes more time than most people realize. As much as twelve months can be required to: (1) develop the project criteria that will ensure that real estate use is

Starting the real estate process early provides the time necessary to produce the most favorable economic result.

Tenants who enter the market without professional representation seldom achieve the best possible real estate solution.

aligned with business operations; (2) identify potential matches in the market; (3) perform due diligence on qualified alternatives; (4) establish negotiating positions with landlords; (5) negotiate a lease; (6) review legal documents; (7) perform final due diligence; (8) execute a lease; (9) complete a space plan, (10) build-out or "refit" the space; (11) move-in and (12) occupy.

- Even if your lease doesn't expire for 24 months don't assume your real estate situation can't be improved. When all factors are considered, renegotiating or relocating before expiration may create the best economic solution.
- Starting early deprives the landlord of the commonly used tactic of delaying negotiations until it's too late to find, negotiate, lease and occupy alternative space.
- The market is at its nadir, and while no one is suggesting a fast turnaround, any improvement will make negotiating the most tenant-favorable lease more difficult.

Engage a Qualified Tenant Representation Team

A qualified tenant representation team is necessary, not only to take full advantage of current market conditions, but also to ensure that business requirements are translated into real estate project criteria. With the rare exception of very large companies who can afford to employ enlightened, experienced real estate executives, tenant companies lack the specific knowledge, skills and experience necessary to effectively execute the following critical activities.

- Real Estate Project Planning - a market-tested, comprehensive methodology is necessary to ensure that the real estate requirements will produce a solution that enhances business operations and corporate objectives. Utilizing an effective process ensures that the final real estate solution addresses not just cost issues, but issues associated with employee productivity and operational flexibility, as well.
- Accessing and Analyzing Underlying versus Apparent Market Information - the public only

has access to real estate market information that is focused on "asking lease rates". This "apparent" market information is inaccurate for two reasons. First, it doesn't provide information on the true market, which is a function of rates at which transactions are actually executed, and secondly, it doesn't provide a comprehensive view of "effective" lease rates, which incorporate other financial concessions and important lease terms. Consequently, a company relying on "public information" has a weak negotiating position which will almost always result in "above-market" real estate costs.

- Negotiating a Lease - not only do unrepresented tenants go to the negotiating table with inaccurate information, they face an adversary who has probably negotiated more leases in the previous week than the executive representing the tenant has in his or her business career.
- Managing the Transition Process - whether a relocation or renegotiation/refitting, facilitating a transition that minimizes business disruption and employee distraction is critical for success. Having access to the full service spectrum and "buying power" of a qualified tenant representative team serves to save the tenant's time as well as reduce the costs of construction, furniture moving and the like.

Profitability and Competitive Advantage

Taking maximum advantage of current real estate market conditions is imperative. Real estate's cost, its impact on employee productivity and the degree to which it accommodates operational flexibility, all significantly influence business performance. Start the real estate process early and utilize a qualified tenant representation team. Position your company for improved profitability and competitive advantage by making real estate a primary contributor to business success, rather than just a place to do business and a cost of doing business.

Tom Driscoll is a corporate real estate advisor with Cornish & Carey Commercial, Client Solutions. He can be reached at (408) 987-4150 or tdriscoll@ccarey.com