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### Tightening Suburban Office Markets Yield Fewer Rights and Concessions for Tenants

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Across many North American cities, suburban office markets have been a good value and opportunity for corporate space users as landlords grappled with higher vacancy rates. But those vacancy rates have decreased in many cities due to the general economic growth over the past couple of years. When vacancy rates decline, landlords get emboldened in their lease negotiations and are often downright unreasonable! But even in a tight market, tenants should negotiate hard for certain rights and concessions in their lease or lease renewal.

When it comes to concessions, free rent is at the top of the list for both new leases and lease renewals. Even in tight markets, landlords still need to meet the market to attract new tenants and retain existing tenants, so some free rent should be available to the tenant. All markets differ on free rent concessions. Is it free base rent or free gross rent? Is it offered inside or outside of the term? The amount of free rent is typically tied to the length of the lease term and the financial strength of the tenant. Ideally the free rent will be at the beginning of the lease term, but when markets tighten, it can be spread over the lease term.

The tenant improvement allowance is another key concession in all leases. As markets tighten, landlords will limit the amount of tenant improvement dollars offered on new leases and renewals. Length of the lease term and the tenant's credit quality are important factors that landlords consider in lease negotiations. Landlords still offer improvement allowances, but the amount will depend on the market, building, and specific space and space condition.

With renewals, landlords are often less generous given that on average, 75% of tenants renew their lease. Thus, landlords will propose lease renewals "as



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is” to the tenant and put the burden on the tenant to counter back with an improvement allowance amount and specify how the dollars will be used. Finally, landlords are less likely to waive or reduce that pesky project management fee that is deducted from the tenant improvement allowance.

Other areas of lease negotiation that change with market conditions are tenants’ rights and options. Some examples are options to renew the lease, options to expand the premises, reduce the size of the premises, and terminate the lease. Other tenant rights such as to audit the lease, or to exterior signage are negotiated differently when it is a ‘landlord’s market’. Tenants need to evaluate the importance of these various options and rights to determine which items are “must haves” versus “would be nice to have”. Whether or not the landlord will agree to provide your business with rights or options will be based upon a variety of factors, including the relative size of the space and the creditworthiness of your company. Most business owners are not involved in real estate transactions on a frequent basis, and would be wise to seek out the advice of a professional real estate advisor to guide them and represent their interests in the negotiations. An advisor that specializes in tenant representation will know which rights and options are available to the tenant and will position the tenant effectively to maximize the free rent and tenant improvement allowance concessions.

