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The commercial classroom: Pricing for lease challenges - have your facts ready

July 17, 2014 - Connecticut

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

It is difficult to compare lease values. Space is offered at \$20 per s/f to rent, but what does this include? Are there any other expenses to the tenant? What is the real cost of that space to the customer?

When lease listings are taken, ask the owner what the quoted price includes and if there are any additional pass-thru's to the tenant. You may find the base rent is \$19 per s/f but the tenant also has to pay \$2 towards utilities and contribute \$3 per s/f to common area maintenance charges. The tenants real cost is \$24. Most customers are not familiar with real estate terms. The best way to help them is to do the calculations for them; multiply the actual cost per foot by the rentable square footage, this gives you the total annual rent, dividing this by 12 months gives you the monthly cost of the space. Quote the tenant the total monthly cost of the space; but be sure to disclose, in writing, the detailed costs.

When pricing leasing space we need to have "comps," but in this category our "comps" are really comparables; what is the current competition, what else is on the market now that the tenant can choose from. In developing your comparables make sure you get all the facts; determine what the real cost of each space is including any pass-thru's.

Another factor in this comparison is the condition of the space and possible tenant improvement costs. Does work (construction or cosmetic improvement) need to be done to make the space suitable for this tenants business. What will it cost and who is going to pay for it? Perhaps the tenant can pay less rent if they do the work? Perhaps the landlord can charge more rent if they do the improvements?

How long is the proposed lease; how long would it take to amortize the tenant improvement costs? Maybe the tenant will sign a longer lease so the landlord can recover their improvement costs? All things must be considered. One building may be "ready for occupancy" and it is being compared to a building that needs work. Which is really the better deal? When all is settled what is the real cost per month?

"Pricing," is an ongoing research job. You must be an expert in your market area, which means constantly updating your personal data base of "comps." (If you don't have one, start a series of files today by sale and lease and property type.) Know what is on the market and what has closed. Read the trade papers to find out what closed, talk to other agents to find out what things really sold/leased for. Have your facts ready for any listing opportunity.

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Smith has been writing and teaching commercial continuing education courses for over twelve years. He has authored seven commercial continuing education courses. He has written three textbooks on commercial and investment real estate with instructor training materials used to teach commercial courses throughout the United States. He has also written "The Commercial Classroom: Lessons in Commercial and Investment Brokerage," and most recently, "Buy the Numbers: Investing in Real Estate."

He is a director and past president of the New York State Commercial Association of Realtors, the Metro-Long Island Chapter of NYSCAR, and the Long Island Commercial Network (LICN). He has previously served as a Director of the Long Island Board of Realtors, a director of the Commercial Industrial Brokers Society (CIBS) and as a director of the Real Estate Practitioners Institute at Long Island University.

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