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The T.R.I.C. formula of leasing; Term, Rental rate, Improvements and Credit history - by David Skinner

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It's been a few months of dealing with COVID-19 and some businesses are really hurting, but others are still doing quite well. Believe it or not, many businesses in the industrial sector have not seen significant slowdowns, specifically in warehousing and distribution. In fact, many companies are putting up historic sales numbers and growing all the more.

Most everybody involved in commercial real estate, or any type of real estate at all, will negotiate a lease at one point or another in his or her lifetime. You need to know the rules of the game. There are rules, and if you follow them, you will unlock leverage that you did not realize you had. Excepting the outliers, these rules remain true: if one lease term is adjusted then the others follow suit.

When you are considering negotiating a lease, you are aware that there are many factors that influence the eventual outcome of a lease negotiation. I want to tell you the T.R.I.C. to lease negotiations. It's very simple. Landlords and tenant are influenced by the Term length, Rental rate, Improvements, and Credit of the tenant. If term, improvements, and credit are in the landlords favor, they will make a good deal for the tenant on the rent. If the improvements, credit, and rental rate are in the favor of the landlord, they compromise on term length. They all move in this proportion. Most landlords will give on at least one of the four, but if two or three of these factors are not in the landlord's favor it will get much more difficult to negotiate. Let me explain.

Term: In traditional leasing arrangements, most landlords want long-term commitments with no options and most tenants want short term commitments with many options to renew. This situation can change if there is property in a hot market and the landlord plans on redeveloping in the near future. In that case, the landlord will value a short term lease when the tenant will most likely want a longer term because the property is in a valuable location. Either way, the logic remains true. If the tenant gives the landlord the desired lease length, the landlord is likely to give flexibility on the other items.

Rent: Rent is tricky. It is universal that tenants want to pay less rent and landlords want to get paid

more. However, based on the T.R.I.C. of lease negotiations, tenants can have significant negotiating power in the base rental rate if they will give a desirable lease term, do their own improvements to the facility (ask for an “as-is” deal), and have a strong credit history. The landlord’s strategy of a hold vs. flip mentality will determine the flexibility on the base rent portion of the T.R.I.C. formula.

Improvements: As you can imagine, “as-is, where-is” deals get most landlords excited because they do not need to come out of their own pockets or their investors’ pockets for this money. However, if a tenant is willing to execute a long-term lease, pay an at or above-market rent, and has great credit, most landlords will find a way to get the money they need to get the tenant in the door. This may appear in a tenant improvement allowance, work letter allowance, or free rent.

Credit history: Now you might ask, “What kind of landlord wants a tenant with bad credit?” Well, the T.R.I.C. of leasing would say that a tenant willing to give an obligation for a favorable lease term at a high rent with no improvements could likely convince a landlord to do the deal. Granted, in a hot market when good-credit tenants are easy to find, the tenant with bad credit will struggle a little more. However, a tenant willing to take a property with the landlord spending little to no money at a high rate will get the landlord’s attention even with questionable or negative credit history.

You want to get everything you want in a negotiation, but you may not get everything that you want. Remember the T.R.I.C. of leasing: Term, Rent, Improvements, and Credit history determine the other side’s flexibility in your negotiation.

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