

Market creates opportunities to negotiate space

by Deborah Held Maslia

When entrepreneur Kurt Jordan, founder and CEO of Atlanta-based mosquito netting company Mosquito Curtains Inc., discovered that the standard 12-foot-wide, 200-pound rolls of netting needed for his business did not fit through his front door, he found a solution -- he and his wife hauled the massive bundles up the outside of their home and in through their second-story front windows.

As the home-based business grew toward the \$600,000 order mark, their home could not support the business.

Jordan found the answer at the 470,000-square-foot, seven-building Northridge Business Park, an office park in the Georgia 400 corridor owned by Lutz Real Estate Investment.

Jordan signed a 36-month lease for a 2,172-square-foot space, at a reasonable \$12 a square foot. Best of all, his landlord threw in two months of free rent and the landlord's broker allowed Jordan access to the space a full month before the lease began.

Some commercial real estate experts are saying small-business owners can thank a "soft market" for affording once at-home entrepreneurs the opportunity to lease commercial real estate space through creative negotiation strategies.

"Landlords are doing everything ... to keep their portfolios as close to full as possible," said Dave Watson, senior vice president of Nashville-based commercial real estate advisory firm Grubb & Ellis Co.

But the tactic is neither new nor a trend.

"Whenever a tenant has a renewal it is not at all unusual for him to be thinking of that and planning his strategy six months to a year in advance," said real estate investment trust Duke Realty Corp.'s Kerry Armstrong, senior vice president of the Atlanta office group.

As the economy has softened, many owners of small to midsized businesses are renewing leases rather than moving or expanding, and landlords are heeding the call. Thoughtful negotiation may get the business owner the time he needs to get through a cash crunch, for example, while the landlord benefits from a lease renewal from a tenant with a clean history.

It has to be a "win-win" situation where "they both get something out of it," said Doug Smith, vice president of leasing for real estate development company Seefried Industrial Properties Inc., headquartered in Atlanta.

"Everything is relative," said Watson. "The landlord is probably willing to take a bit less today" versus a year ago, he said. "The landlord will [still] win, maybe just not as much."

All is not bleak for the landlord.

"Landlords are not as desperate to fill spaces in this recession as the last downturn. Too often [tenants] think there's more of a recession than there is."

Smith said that it's the new tenant, surprisingly, who has more bargaining power than the tenant who's renewing, since landlords are in competition for good, new business.

"Atlanta's economy has grown a lot because of home-grown businesses," said Armstrong. "They are the bright spots of Atlanta's economy."

Any deal would be based on creditworthiness and the degree to which the landlord believes in the tenant and his product or service, as well as the willingness to demonstrate this credit or credit guarantee, said Pat Murphy, senior vice president for commercial real estate firm CB Richard Ellis Inc.

Still, even the entrepreneur making the move from his home office to the commercial real estate space won't get major concessions, said Armstrong, as he has no payment history from which to assess risk.

The same goes for many small businesses.

"Small companies don't always have the leverage they may wish," said Armstrong. Despite the fact that "even in a down market, they are the ones growing in Atlanta," the small business may need concessions of space that cannot be met in the standard office building.

"A lot of times we don't have a space small enough to accommodate them," Armstrong said.

Hiring a seasoned tenant broker to aid in negotiations is a must, according to the experts. Not only has he experienced this type of market, but he has established relationships with landlords and knows their negotiating and leasing patterns.

Just as a person wouldn't defend himself in a court of law without a lawyer, said Watson, in the same vein, "you don't want to go to your landlord and renegotiate your lease" without an expert.

"Deals go more smoothly with an adviser," agreed Murphy.

Murphy advises tenants to be prepared to sign a minimum of a three-year lease and quite possibly a five-year lease.

But the best value does not always equal the cheapest price, so buyer beware.

"A lease is like a marriage," said Armstrong. "You're entering an extended relationship."