



TIPS FOR TENANTS - Q4 2018

Top 10 Lease Negotiation Mistakes

When do most executives think about their office lease? Usually when it is about to expire! Every three to ten years they find themselves in the same boat: the lease is up, and somebody has to deal with it. Unfortunately, since most executives will only negotiate a handful of office leases during their career, achieving a certain level of competence is very difficult. Often the hardest lessons are learned through mistakes - mistakes that cost a firm thousands of dollars. Many firms approach the lease process ill-equipped and behind the curve. Below is a list of common mistakes that companies make in the site selection and lease negotiation process.

1 Not allowing enough time and resources for the process:

The relocation process typically requires eight to nine months (minimum of six) and as many as eighteen to twenty-four months if you are a larger tenant looking to build your own building. Finding "as-is" space that meets all of your specifications and needs is very uncommon and a build-out is usually required. Once you have completed the assessment and evaluation stages of the process (which can take up to 5-6 months) and have identified the space that best suits your needs, finalizing negotiations with the Landlord on the letter of intent can take weeks. Meanwhile, architectural plans will need to be finalized, construction documents must be started and building permits will need to be obtained. Finally the remodeling of the space can begin, which can take one to three months depending on the requirement.

2 Beginning a space search without determining short-term and long-term needs and goals:

A Tenant's first step in the relocation process is to analyze their space needs (possibly with the help of a space planner). A Tenant must first determine if their current space could be better utilized, or if they need to find more suitable space. In order to do this, you should have a sound knowledge of your firm's square footage requirements, employee and departmental interaction, communication and technology needs, and future growth projections, as well as other requirements such as image, proximity to labor base, and proximity to airport, downtown, etc.

3 Using the wrong broker or no broker at all:

Unless someone in a company is an expert in commercial real estate, most firms do not have the time or the resources to stay abreast of market trends, current real estate issues and law revisions. Seeking professional support on something as vital as office space is important. However, many will attempt the process unassisted and will deal directly with the Listing Agents of the prospective buildings - big mistake! Listing Agents work for the Landlord and their first goal is to get the best deal for the building. Get Representation!

A good Tenant Representative can counterbalance the Landlord's team of experts. However, you should select the right broker for your space needs. A common mistake Tenants will make is hiring a broker outside of his or her expertise - for example they'll hire an office broker for an industrial move. Commercial real estate is highly specialized and is commonly segmented into three categories: office, industrial & retail. Each type is distinctly different, and will require specific expertise.

4 Beware of "as-is" property: Finding "as-is" property that suits your needs will be very challenging. However, if you do, it is essential that you require the Landlord to guarantee that the space is up to current building, fire, safety, zoning and ADA codes. The Landlord should also agree to guarantee the condition of the electrical, plumbing, heating and air conditioning systems for the first 60-90 days (or the entire term of the lease if possible.)

5 Not using architects and general contractors under your control: By allowing Landlords to use their own architects and general contractors, you will likely lose the ability to control the design of your space as well as the ability to maximize the up-fit allowance provided by the Landlord. They work for the Landlord, and their obvious responsibility is to look out for his or her best interests. By using your own space planner and contractor, you will create a cohesive team early in the process - a team that is working on your behalf.

6 Not performing accurate "apples to apples" comparisons of available facilities: All buildings are distinctly different and so are leases. A comparative analysis should present the various space alternatives in a format that makes it easy to compare all the factors of the lease. The analysis should break down the many components of the building leases and compare the clauses and economic factors of each. Among the many items that need to be compared are lease types (full-service, net, triple-net, etc.), finish levels, tenant improvement allowances (slab-to-slab, below ceiling, etc.), lease incentives and usable and rentable square feet. A Tenant will never know if a lesser rate is actually the best deal unless these factors are carefully scrutinized and compared on an apples-to-apples basis.



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7 Failing to obtain accurate, current market research: How can you get the best deal on the market if you don't know the market? To avoid paying too much for your space, it is imperative that you perform a thorough market analysis. A Landlord's bargaining position is always "negotiable" depending on factors such as occupancy rates in their building, the competition's lease terms, financial strength of a Tenant, and a Tenant's square footage requirements. Cherry & Associates actively tracks the Charlotte office market and we have access to invaluable market data. We can provide an overview of the current office market and a detailed sub-market survey that lists available properties, rental rates and other economic factors. We also know which landlords can offer the best terms for your specific situation such as build-out allowances, rent incentives, and flexible lease terms.

8 Failing to Create a Competitive Environment for Lease Negotiations: Whether you are considering renewing the lease in your existing space or you are looking for new space, you must create a competitive atmosphere for negotiations. Finding competitive building alternatives that meet your needs will promote competition among Landlords and will give you the leverage to cut the very best deal for your company.

9 Signing the Landlord's "Standard Lease" without modifications: Beware when you hear a Landlord say "It's our standard lease - everybody signs it!" Remember "standard" does not mean fair or equitable - building owners are looking out for their own interests! A lease is a contract and it is absolutely prudent on your part to challenge any language that is unacceptable to you. Hire an attorney! Office leases are very legalistic, complex documents, but you would be surprised at the number of firms that choose not to engage an attorney and will sign the standard lease with few, if any changes at all!

10 Paying the "Sticker Price" for Space: Most Landlords set their initial lease terms higher than they are willing to accept. Remember, most business terms in a lease are negotiable. However, if you haven't done your "homework" or you haven't hired someone to do it for you, you will have very little, if any leverage at this point. A Tenant Rep Broker, who is involved in the earliest stages of the process, can bring choices and market knowledge to the negotiating table. He should have some insight into how far a Landlord will go to get the deal done.

Barney Earles Joins Cherry & Associates as Broker and Client Services Leader



Industry corporate services veteran Barney Earles has joined Cherry & Associates, where he will provide leadership in client transaction management for users of both office and industrial real estate. Barney comes to Cherry & Associates most recently from CBRE, where he served as SVP of Global Corporate Services since 1999.

"We are thrilled to have Barney join our team", says Ben Speir, Partner with Cherry Associates. "He is revered by both clients and colleagues as one of the best in the business. Barney's 34 years of experience have included everything from the local representation of office Tenants, to representing Fortune 500 companies with Build-to-Suit leases up to 500,000 SF. His representation of client real estate portfolios through the years has developed him into a process and metrics driven advisor; a skill-set that blends perfectly with our firm. He certainly brings an added layer of expert consulting to our team, and most importantly, to our clients". We look forward to working alongside Barney in our continued efforts to offer our clients exceptional service, and unwavering advocacy."



CHERRY & ASSOCIATES
the office tenant rep experts

Charlotte Office Market Stats Q4 2018

MARKET	Inventory/SF*	Net Absorption YTD (SF)	Gross Absorption YTD (SF)	Direct Vacant SF	Direct Vacant %	Sublet Available SF	Total Available SF	Total Available %	Direct Gross Average Rent**	Sublet Gross Average Rent	Gross Quoted Rents (Range)	Multi-Tenant SF Under-Construction
CHARLOTTE	46,369,406	1,197,223	4,355,769	5,265,168	11.35%	644,964	5,910,132	12.75%	\$28.22	\$25.12	\$11.50-\$40.00	2,628,498

Submarkets

Southpark	4,284,798	217,629	589,784	414,894	9.68%	151,504	566,398	13.22%	\$31.53	\$26.64	\$24.00-\$39.00	0
Downtown	15,722,231	532,234	1,180,340	1,912,105	12.16%	164,647	2,076,752	13.21%	\$33.17	\$30.49	\$22.00-\$40.00	1,610,073
Midtown	3,461,737	100,485	370,864	157,584	4.55%	15,807	173,391	5.01%	\$30.51	\$28.74	\$18.00-\$40.00	519,956
Airport	7,496,064	99,907	934,245	1,242,097	16.57%	146,682	1,388,779	18.53%	\$22.73	\$19.59	\$11.50-\$26.50	114,469
Highway 51/ Southeast	5,229,931	111,688	542,355	454,717	8.69%	68,075	522,792	10.00%	\$29.03	\$25.55	\$18.25-\$37.00	354,000
North	2,609,853	(94)	255,777	183,683	7.04%	82,326	266,009	10.19%	\$24.69	\$21.52	\$14.00-\$32.00	30,000
University	4,088,347	65,455	278,060	534,020	13.06%	8,093	542,113	13.26%	\$22.73	\$19.00	\$15.00-\$25.00	0
Matthews/ Crownpoint	1,065,151	(14,755)	50,725	100,271	9.41%	0	100,271	9.41%	\$16.74	-	\$13.00-\$25.00	0
Cotswold	114,162	(1,093)	8,592	1,093	.96%	0	1,093	.96%	\$26.00	-	\$26.00	0
Park Road	904,514	66,765	92,597	77,506	8.57%	7,830	85,336	9.43%	\$25.30	-	\$15.00-\$28.00	0
East	1,392,618	19,002	52,430	187,198	13.44%	0	187,198	13.44%	\$16.37	-	\$14.50-\$26.00	0

SC TOTALS	1,871,338	30,881	306,171	205,070	10.96%	87,200	292,270	15.62%	\$23.40	\$19.58	\$17.00-\$32.50	13,484
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SC Border Submarkets

Lancaster County	417,875	(11,821)	12,721	57,594	13.78%	0	57,594	13.78%	\$22.68	-	\$21.00-\$23.50	0
York County	1,453,463	42,702	293,450	147,476	10.15%	87,200	234,676	16.15%	\$23.60	\$19.58	\$17.00-\$32.50	13,484

*derived from multi-tenant, non-owner-occupied buildings, above 10,000 SF

**given landlords do not quote rental rates for fully occupied buildings, this report does not arbitrarily assign rental rates to fully occupied buildings