

# 10 CONSIDERATIONS When Approaching Lease Renegotiation & Rent Reduction



At the time of this writing, markets across the globe are in a state of disruption. Seemingly overnight, our ways of working, living and playing have changed. Business and CRE leaders are struggling to address both the safety of their workers and the viability of operating their businesses using traditional methods. CRE executives are seeking solutions to better position their organizations for the economic realities ahead. As a leading advisor to both occupiers and investors, Cushman & Wakefield's leasing and CRE account professionals encourage tenants to consider the following in preparation for lease renegotiations and rent relief requests.



**DELIVER A WELL-PLANNED, WELL-TIMED ASK.** Many critical details – legislation, legal interpretation, and overall economic impact of current events are still unfolding. Pursuing immediate relief/savings without a well-planned strategy is unlikely to yield optimal outcomes for your organization. Developing an informed strategy versus approaching a landlord with a “blind ask” will almost always yield better results and help preserve relationships that will be critical in the future.



**DETERMINE YOUR BUSINESS POSITION.** Tenants in specific sectors and organizations may face legitimate liquidity issues in April. Others will need to create more strategic mid-and long-term plans to protect their business continuity. For example, not all locations may be of equal strategic value to a business, especially in cost reduction mode. If a location in your portfolio was already experiencing low utilization or was on a watch list, rather than negotiating lower rent, you may decide to exit the asset. For those businesses with multi-tenant assets or that experience a reduction in production/utilization, you may have a basis for not only renegotiating rent, but also operating expenses. Connect with your key business leaders and define your overall position, and the specific parameters for evaluating and taking action.



**LEVERAGE DATA.** Prior to engaging a landlord or other CRE marketplace participants, analyze and leverage all data available to you. While your organization's priorities may be rapidly shifting, the same is true of landlords, developers, investors, and lenders.

- Internal data can help business leaders understand their options. Examples include business specific actions, utilization, and other internal business patterns and trends.
- External data will vary by asset class. For example, in seeking alternate supply chain routes, leaders might look to market data that outlines the geographic regions or locales less impacted by current events, and get orders placed before shutdowns. Corporates may leverage re-openings data in considering whether to open in coworking suites that are closer to places of residence while they shed square footage in city centers.
- Additionally, knowing and connecting with neighboring tenants can also inform your strategy through comparison using knowledge of their activities.

The more volatile a situation, the more important it is to understand all data available.



**ARTICULATE THE VALUE PROPOSITION OF YOUR SPECIFIC ASSET OR LEASE.** Flex office space, warehousing on demand, and 3PL arrangements were specifically designed to thrive in the current environment. However, for a build-to-suit asset that was purchased, built, and exists for your specific purpose and use, the approach to defining the value proposition of your assets/leases with landlords will vary.



**PARTNER WITH LANDLORDS.** Where possible, landlords are generally empathetic with tenants that are facing true hardship and seek to foster relationships that will extend beyond the current lease term. A tenant's ask needs to be realistic. Like any negotiation, creative avenues of relief like CapEx, CAM, or parking versus full rent relief will demonstrate a willingness to find a solution. Negotiations should also demonstrate consideration of additional economic structures, such as SBA funding (U.S.) and other types of governmental economic support. Also, many landlords will be more amenable to deferment (e.g. amortize into 2021). Awareness of constraints on either side will further inform the discussion:

**Tenants' perspective:** Many organizations see their landlords as strategic partners, enablers of their business, and sources of capital, while others see them simply as a routine component of business operations. CRE leaders should collaborate with their C-Suite executives, supply chain, manufacturing, marketing (in the case of retail) and finance teams to understand the strategic value of these relationships balanced against specific contracts and liabilities.

**Landlord's perspective:** Depending on the ownership structure (e.g., Institutional Landlord, REIT, Private Equity, or generational private landlord) and level of liquidity, governance and decision results will vary. In most cases, debt service payments will continue, as will property operating expenses. Landlords may need to escalate asks to lenders and/or joint venture partners for their most leveraged assets.

Understanding your landlords' ownership structure, scale, leverage, product mix, culture, and many other characteristics and objectives will have a significant impact on how they respond to requests for rent relief and/or lease re-structures.



**KNOW YOUR LEASE OPTION NOTIFICATION DATES.** Work with your lease administration and service providers to understand your lease option notification dates for termination and contraction. If needed, this knowledge will enable you to speak to your landlords about extending these dates to allow more time for decision making.



**UNDERSTAND YOUR ACTUAL LEVERAGE.** Experience tells us that strategic investors respond well to facts and opportunities to create long term value through partnership. For example, identify opportunities where you have multiple locations with the same landlord. Smaller, independent landlords may be motivated to address your specific asset/lease. The actions, stability, and liquidity of co-tenants may also be points of leverage with your landlords. Work broadly across your organization to understand all levers that are impacting your sector and business.



**RESPECT SUBTENANTS.** CRE executives should look at subtenants as direct clients of their organization. Much like you, they have concerns regarding their business operations and rent obligations. Look closely at these arrangements, formulate a strategy, and communicate openly and directly with them.



**CONSIDER YOUR CULTURE AND BRAND.** Actions companies take, or don't take, will define them in the eyes of consumers, shareholders, and the landlord community in the weeks, months and years to come. In an age of social responsibility and social media, actions you take now can have a significant long-term impact on your culture, reputation and brand.



**KNOW YOU ARE NOT ALONE.** Cushman & Wakefield's professionals are working around the clock with clients experiencing similar, if not identical, challenges during this unprecedented time. Our collaborative culture has further connected our global leasing teams, enabling us to share best practices and successful leasing strategies that yield optimal solutions across our client base. The right real estate professionals and industry peers can help guide you through the complexities we are all facing, share real time updates on how they and/or others are addressing similar challenges, and provide the necessary thought leadership to help you make informed decisions.

The real estate sector is typically a lagging indicator in a recession, but during a crisis, it gets top billing for strategic leverage. Make no mistake, all parties in the real estate ecosystem—tenants, landlords, and lenders—are preparing. But the race to savings and stabilization requires careful planning and knowing which levers can be pulled to reduce costs. While tactical clean-up is necessary as activities slow, proactive planning on actionable portfolio strategies will prepare companies for what's next.

Leveraging the lessons learned from China and Europe at the onset of the COVID-19 crises, Cushman & Wakefield leasing professionals are helping organizations like yours develop an informed, collaborative style of negotiation that is proving to maintain, and in some cases enhance, pre-crisis levels of partnerships with landlords amidst uncertainty.