

Myth: Hiring a Broker Will Increase Rental Rates

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This article will once and for all dispel the myth hiring a real estate broker will increase your leasing costs. Landlords will take advantage of a tenant without professional representation. Would you negotiate a \$4.0 million government contract without an attorney or buy a \$7.0 million company without your accountant or attorney? Then why would you negotiate a lease without a broker. Landlords do not pass their savings

on to tenants. Previous to starting Mid-Atlantic Commercial Realty Dana Weinberg worked for several building owners negotiating leases and approving leasing budgets. The leasing budgets establish the rental rates to be achieved, commissions to be paid and tenant improvement allowances offered among other economic lease terms. Lease commissions are always budgeted and assumed to be paid to the tenant's broker on all lease renewals, new leases, extensions and expansions.

What motivates the various parties and what are the benefits received? The landlord's broker is motivated to lease the space quickly at the highest rental rate and without a tenant's broker to maximize their lease commission. The landlord brokers' commission could increase to as much as 4.0% from 2.0% if a tenant does not hire a broker. The landlord is motivated to achieve the highest rental rates and minimize capital costs (lease commissions, tenant improvements and free rent) to maximize the property's investment return. Landlords do not just lower the rental rate for a lease renewal if the tenant does not hire a broker.

Let's quantify the economic lease benefits lost by the fictitious company Great Pacific Capital ("GPC") if it does NOT hire a broker when it renews its lease for another five years. GPC leases 5,000 square feet in a typical Class B office building in Northern Virginia and is currently paying a \$26.50/sf rental rate with a lease expiring January 31, 2014. A "market" deal for renewing leases for this and competing buildings, assuming a "good" credit tenant, is \$23.00/sf based on a five year and five month lease term, five months free rent, 3.0% annual increases and a \$20.00/sf tenant improvement allowance. Does GPC know the "market" terms and conditions above? It's highly unlikely unless the tenant is working with a knowledgeable broker who can negotiate a "market" deal.

GPC contacted the landlord's leasing agent. The landlord's leasing agent "sold" GPC on the **myth** the landlord would pass the savings on to GPC for not having to pay a commission to a broker. The landlord and leasing agent were delighted. After two months of intense negotiations GPC and the landlord agreed to a \$25.00/sf rental rate with 3.0% annual increases over a five year and one month term and lease concessions consisting of a \$10.00/sf tenant improvement allowance and one month free rent. GPC lowered its rental rate by \$1.50/sf or \$37,500 over the lease term and negotiated a concession package valued at \$59,600 consisting of \$50,000 in tenant improvements and \$9,600 in free rent. However, GPC could have reduced the rent by \$87,500 and increased the concession package value to \$148,000 consisting of \$100,000 in tenant improvements and \$48,000 in free rent if they only hired a broker. Contact us to learn more about how we could create economic benefits in your next lease negotiation.