

TENANT RENEWAL GUIDE

Re-Invent Your Renewal



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Executive Summary

The Renewal Decision

Generally, every three to five years, tenants are faced with very important decisions when their lease is scheduled to expire; should you relocate or should you renew? What are the financial implications? When should you start the process to ensure that we maintain leverage and complete the entire transaction in time to avoid penalties? We can answer these questions for you and manage the entire process.

In many cases, moving costs, convenience of location, and long-term goals make staying in your current location an obvious choice. When this is the case, it's time to start the tenant renewal process. When planning your renewal, it is in your best interest to hire an experienced broker team with proven results of helping tenants save money on their occupancy costs and leveraging current market conditions. Our team at Kidder Mathews embodies this and we will show you our methods in this explanatory guide.

Key Financial Drivers of Renewals



BENEFIT OUTLINE

By working with our team, your company can look forward to some or all of the following benefits

- Complete market coverage of alternative facilities
- Financial analysis of alternatives and terms of renewal proposal
- Free rent as an incentive to stay
- Lowest rent given market conditions
- Increased tenant improvement allowance for paint, carpet, dock equipment, etc.
- Negotiation of options to expand, contract, or early termination



Value-Add Study #1

FLOORING DISTRIBUTION | 68TH AVENUE SOUTH, KENT, WA

Project Initiation Date: October 1, 2016

Project Completion Date: July 1, 2017

	NEGOTIATED TERMS	INITIAL PROPOSAL TERMS	TOTAL VALUE ADDED
Proposed Rentable SF	37,479	37,479	
Final Rentable SF	37,479	37,479	
Rent Start Date	07/01/2017	07/01/2017	
Lease Expiration	08/31/2022	06/31/2022	
Lease Type	NNN	NNN	
Rent Schedule			
Year 1	\$362,189	\$380,179	
Year 2	\$362,189	\$391,584	
Year 3	\$383,920	\$403,332	
Year 4	\$383,920	\$415,432	
Year 5	\$406,956	\$427,895	
Year 6	\$67,826	-	
Total Rent Amount	\$1,967,000	\$2,018,422	\$51,422.00
Levelized Rent/RSF/Year	\$10.15	\$10.77	
Free Rent Periods (in months)	2	0	\$60,365.00
Operating Expenses	2017 Base Year	2017 Base Year	
TENANT IMPROVEMENTS			
Total Tenant Improvement Allowance PSF	\$40,000	-	\$40,000.00
Who is Responsible for Construction	Landlord	Landlord	
Construction Management Fee	0.00%	0.00%	
RENEWAL OPTION			
	None	None	
Notice Period	N/A	N/A	
Renewal Rate	N/A	N/A	
OTHER OPTION RIGHTS			
Expansion Option (Y/N)	ROFR on adjacent suite	None	
Contraction (Y/N)	None	None	
Purchase Option (Y/N)	None	None	
HOLDOVER RATE (%)			
Based on 3 Months of Holdover Rent	125%	150%	\$22,636.81
HVAC EXPOSURE			
Potential Costs Per Year	\$700	\$20,000	\$19,300.00
SUBLEASE / ASSIGNMENT			
	With Landlord's consent, which shall be not be unreasonably withheld	With Landlord's consent, which shall be not be unreasonably withheld	
SIGNAGE			
	Building signage at Tenant's sole cost and expense	Building signage at Tenant's sole cost and expense	
Total Value Added			\$193,723.42

Savings Overview

Reduced Rent Rate Value	\$51,422
Free Rent Value	\$60,365
Landlord Concessions Value	\$19,300
Tenant Improvement Value	\$40,000
Total Value Added	\$193,723

Summary

Our team was able to negotiate substantial savings and reduce our client's exposure in the amount of \$193,723 on a lease with a total consideration of approximately \$2,000,000. The client was ecstatic to get a discount on rents given the increasing upward pressure on pricing and securing above market Tenant Improvement dollars to increase productivity and efficiencies.

Value-Add Study #2

AEROSPACE MANUFACTURER | 212TH STREET BUILDING, KENT, WA

Project Initiation Date: January 4, 2017

Project Completion Date: May 8, 2017

	NEGOTIATED TERMS	INITIAL PROPOSAL TERMS	TOTAL VALUE ADDED
Proposed Rentable SF	144,013	144,013	
Final Rentable SF	144,013	144,013	
Rent Start Date	07/01/2017	07/01/2017	
Lease Expiration	06/30/2020	06/30/2020	
Lease Type	NNN	NNN	
Rent Schedule			
Year 1	\$604,855	\$777,671	
Year 2	\$626,025	\$801,001	
Year 3	\$647,936	\$825,031	
Year 4	-	-	
Year 5	-	-	
Year 6	-	-	
Total Rent Amount	\$1,878,816	\$2,403,703	\$524,888
Levelized Rent/RSF/Year	\$4.35	\$5.56	
Free Rent Periods (in months)	-	-	
Operating Expenses	2017 Base Year	2017 Base Year	
TENANT IMPROVEMENTS			
Total Tenant Improvement Allowance PSF	-	-	
Who is Responsible for Construction	Landlord	Landlord	
Construction Management Fee	0.00%	0.00%	
RENEWAL OPTION			
	Yes	None	
Notice Period	12 month growth	N/A	
Renewal Rate	Market Rates	N/A	
OTHER OPTION RIGHTS			
Expansion Option (Y/N)	-	-	
Contraction (Y/N)	-	-	
Purchase Option (Y/N)	-	-	
HOLDOVER RATE (%)			
Based on 3 Months of Holdover Rent	-	-	
HVAC EXPOSURE			
Potential Costs Per Year	-	-	
SUBLEASE / ASSIGNMENT			
	With Landlord's consent, which shall be not be unreasonably withheld	With Landlord's consent, which shall be not be unreasonably withheld	
SIGNAGE			
	Building signage at Tenant's sole cost and expense	Building signage at Tenant's sole cost and expense	
Total Value Added			\$524,887.57

Savings Overview

Reduced Rent Rate Value	\$524,888
Free Rent Value	N/A
Landlord Concessions Value	N/A
Tenant Improvement Value	N/A
Total Value Added	\$524,888

Summary

Our team was able to negotiate substantial savings and reduce our clients exposure in the amount of \$524,888 on a lease with a total consideration of approximately \$1,900,000. The client was completely satisfied to be receiving a discount on rents given the increasing upward pressure on pricing.

Conclusion

Common Renewal Questions Answered	
Will you really save me money?	Depending on market conditions our services may save you 10% to 20% of total value over the term of an unrepresented renewal (sometimes much more). You will be assured that you have obtained the best possible lease deal available.
I don't want to pay out-of-pocket for your services.	Our fees are fully paid by the landlord. There is no cost to you.
Won't using your services create "fill will" with my landlord?	No - just the opposite is true. Our services ensure a continuing cordial relationship with your landlord. Landlords respect tenants who approach their renewal on a professional third-party basis. In fact, a recent study of the largest institutional owners confirmed that 90% of tenants over 25,000 square feet have representation on renewals.
I think I'm a good negotiator and can do this myself.	We have access to resources that are unavailable to you. The vast majority of Fortune 500 companies use local brokerage services for their renewals - this is because they recognize the tremendous value and accountability. Without a tenant advocate, a landlord will rarely take seriously the threat that you may relocate, and will not give you their best economic terms.
My landlord says these costs will be built into my renewal.	In most circumstances, landlords budget for the payment of fees to the tenant's broker, since this practice has become common place. Additionally, by showing the landlord the alternative spaces available to you, as well as the costs associated with your space becoming vacant, the landlord will pay our fee - at no cost to you.
I have already started discussing renewal and/or have received a renewal proposal from my landlord.	We will tell your landlord that you have decided to be represented by a tenant advocate and will be making a thorough review of the market. We will get back to him/her after we have considered the market alternatives and will then submit a renewal proposal along with proposals to competitive spaces.



MARKET FORECAST		
	CURRENT	PROJECTION
Vacancy	3.13%	↑
Construction	5.8M SF	↑
Rental Rate	\$0.65 PSF	↑
Absorption	1.2M SF	↑

*By submarket

SO...WHAT DOES THIS ALL REALLY MEAN?

While a renewal may appear simple and straightforward on the surface, there is quite a bit of strategy involved to execute in a manner that saves money and adds value. By design, landlords are going to serve their best interests. Without a tenant representative serving YOUR best interests, you run the risk of being taken advantage of – the results of which can end up punishing you for the duration of your new lease term.

By working with our team at Kidder Mathews, we can assure you that we will work tirelessly to get the absolute best deal possible, even if that means less pay for us. We pride ourselves on serving the best interests of our clients' and doing everything in our power to fight on their behalf. We hope you have learned a thing or two by reading through this Renewal Guide and we would love to tell you more about our insight and strategies. Please give us a call anytime to ask further questions or schedule a consultation.

Team Overview



KRAIG HEETER, SIOR
SENIOR VICE PRESIDENT
PARTNER

CAREER SUMMARY

Kraig Heeter has been a tireless advocate and advisor for his clients since 2001, specializing in industrial sales and leasing in the Kent Valley. Kraig's excellent reputation allows him to leverage his relationships for his clients' benefit, reducing risk throughout the entire real estate cycle. Kraig's aggressive negotiating style and in-depth market knowledge ensures his clients can make educated and confident decisions concerning their corporate real estate needs.



MATT MCLENNAN

CAREER SUMMARY

Matt McLennan specializes in industrial leasing and sales in South King and Pierce counties. Matt excels in adding value and negotiating on his clients' behalf. Matt's tireless work ethic and positive attitude allow him to maximize returns in all transactions he participates in. His ability to quickly build relationships enables him to move at a fast pace, ultimately savings his clients' time and money.

REPRESENTATIVE TRANSACTIONS

GLP Seattle Portfolio 360,000 SF

Leasing team member for Global Logistic Properties Seattle portfolio, comprised of Mill Creek Distribution Center and Valley Freeway Commerce Center

Weyerhaeuser 943,000 SF

Disposition assignment for seven properties comprised of 800,000 SF of buildings on a total of 110 acres

Dermody LogistiCenter at 167 226,000 SF

Pre-leased 3 months prior to construction to national credit tenant

RealTerm NAT 140,000 SF

Represented buyer on three investment acquisitions in Auburn, WA and San Diego, CA on 18 acres of land

PacTrust - Pacific Business Park 115,000 SF

Ongoing leasing broker for nine building industrial park in Kent

IAAI Site 24 Acres

Buyer representation of a long-term leased land site in South Seattle

Pacific Carpet Distributers 90,000 SF

Multiple tenant representation transaction in Seattle and Portland

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