

# RE Lease

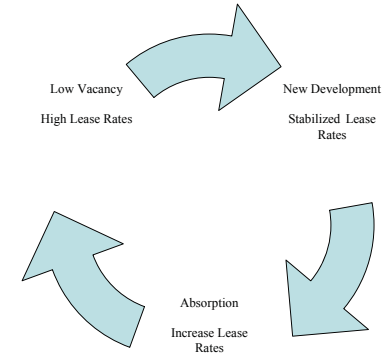
News for the Commercial Tenant and Buyer

Fall 2007 Issue 9

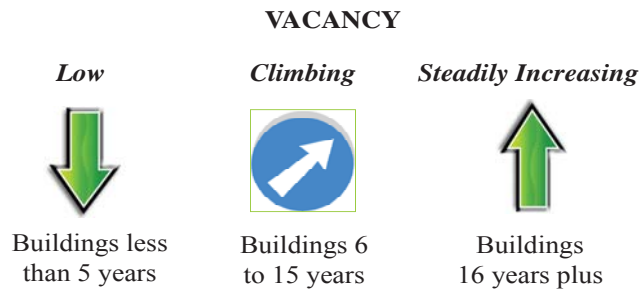
Don't Lease Space Without Us.

## What Causes Office Vacancy?

A great deal of the time it is the loss of Base Employment. In the Capital District, we experienced the down sizing of General Electric; as well as, the loss of the financial headquarters for Key Bank and Fleet Bank. However, that is not the actual cause of vacancy issues in our market today. Real Estate follows a predictable cycle: low vacancy leads to higher rents, which leads to new development, which leads to stable rents until absorption is accomplished; then back to higher rents and followed by more development.



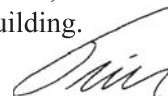
When we look at the Office Market throughout the Capital Area, it becomes apparent where the current vacancies exist. They exist in the older products that have not benefited from recent modernization. Examine the Central Business District areas of Albany, Troy and Schenectady. Buildings that have been modernized through renovation, or those buildings that have been newly constructed (within the past five years), have little to no vacancy. The vacancy rate escalates to a median level for buildings aged six to fifteen years. However, buildings sixteen years and older lead the way with the highest vacancies.



So what else causes vacancies? In the Capital Area Central Business Districts, it is caused by our sprawling suburbs, efficient highway systems and the expensive cost and limitations placed on redevelopment of historical properties. The cost of parking (which can run as high as \$3.50 per square foot) and the Landlord's failure to reinvest in their properties; can also add to the cause of vacancies.

What can the Capital Region do in order to stop this migrational sprawl? Fill Tenants' needs with current inventory. This suggestion will take a partnership effort by local government and individual property owners. The government needs to address affordable parking solutions; along with, personal tax incentives and low interest loans or grants for the redevelopment of existing properties. The individual property owners need to reinvest in their office product to meet today's business needs. These property owners have two options: 1.) *Modernize*, if possible, to satisfy the office tenant's requirements or 2.) *Adapt* their property to fulfill another need; such as, urban housing.

All in all, our local community needs to accept that there is not a new primary employer on the horizon for our Central Business District Communities. Government and the private property owners need to unify immediately, and commit to a corrective plan. Otherwise, the office blight will multiply with each suburban building permit issued for a new office building.




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# As A Tenant, Are You Negotiating A Suitable Lease?

Written by: Leah Capobianco

Tenants believe a successful transaction is securing a lower lease rate than the current market rate for similar space. A successful transaction contains the essential and necessary terms to protect the interest of the tenant. When a lease is successful, it will enable your company to operate efficiently and effectively with the lease space meeting your real estate needs.

In order to maximize the value of the real estate transaction, effective negotiations require skill and creativity based on market knowledge. Of the numerous clauses in a lease, a dozen or more can lead to either savings or increased expenses. These provisions range from parking fees to more substantial matters; such as, the terms for increases of occupancy expenses, hold-over provisions and expansion rights. In order to protect your company, tenants must negotiate all the components connected to their company's circumstances. Listed below are some important items addressed in a professional negotiation.

## Prior to Occupancy:

- Needs Profile. Determine efficient square footage using a comprehensive analysis of current and future space requirements. This analysis will ensure your real estate meets the needs of your business.
- Early Occupancy. Allows the tenant to occupy the space prior to the lease commencement, for the purpose of making alterations to the space rent free.
- Tenant Improvements. The build out to the interior of the demised area, structured to meet the functional needs of the tenant, within their budgetary constraints.

## During Occupancy:

- Expansion Options. Allows the tenant the right to any part of an adjoining space - that becomes available - before putting it on the market.
- Assignment/Sublease Rights. Allows the tenant the right to sublet or assign all or part of the premises at any time.
- Additional Rent. Amount of rent due in addition to the base rent.
  - Parking (if applicable)
  - Base Operating Expenses - Pro Rata share of
    1. all real property taxes and assessments payable on the building over and above the established base year.
    2. all insurance premiums incurred in relation to the ownership and operation of the building.
    3. all reasonable costs of operations, management, maintenance and repair of the building.
- Right to Audit. Gives the tenant the right to audit the operating expenses in an effort to determine discrepancies in the amount paid; by tenant, as additional rent.

## After Occupancy:

- Renewal Options. Grants a tenant the option to extend the term of the lease for a specific amount of time.
- Holdover Provision. Sets forth the terms that a tenant may remain in possession of leased property after the term has expired.

Understanding the real estate market, combined with proper negotiation, can affect your cost and risk associated with a lease. Prior to any negotiations: you must identify your real estate needs, look beyond initial costs and find solutions that will add value over the duration of tenancy. Being prepared for negotiations with proper market knowledge and information on available properties, will strengthen the tenant's ability to create competition amongst landlords.

The best strategy is to enlist a Tenant Representative who can facilitate aggressive negotiations and help avoid costly mistakes. The benefit of using a Tenant Representative is their in-depth knowledge of past lease transactions, lease clauses, market rates, operating expenses, renewal options, etc. Without representation, a tenant is at the mercy of the in-depth experience of the landlord.

# Project Summary

**Client:** Private Buyer  
**Property:** Mohawk Garden Apartments  
220 Unit Apartment Complex  
**Location:** 105 Ringdahl Court - Rome, NY



## Summary and Accomplishments

A multi unit apartment complex was identified by the client as a possibility for purchase. Based on a reference, they contacted Conley Associates for expert guidance. The client had previous experience with purchasing and managing one and two unit properties, but not with an apartment complex of this size. Assistance in analyzing the performance and asking price for this investment was requested. A suggested purchase price was identified and justified; thus, giving the client the confidence to put forth a purchase offer. Conley Associates assisted in identifying the business terms of the purchase offer, while the client's legal counsel reviewed all the legal terms. The transaction then went to contract. Financing was sourced out to competing lenders with lending terms fully identified. Final due diligence was completed with a successful transfer of title.

## Project Skills

*The following work was completed on behalf of the Client:*

- A *proforma* of the investment was completed, demonstrating the estimated funds required for the acquisition, projected annual cash flows based on anticipated revenues and expenses; as well as, the projected net proceeds from future disposition.
- Investment analysis tools were used to illustrate the internal rate of return, cash on cash return, debt coverage ratios and net present value calculations. This assists in determining an appropriate purchase price to match the client's return of investment goals.
- Purchase contract reviewed for appropriate business terms.
- Financing was sourced to competitive lenders who then identified rates and terms, including:
  1. term and amortization, initial interest rate index, rate adjustment periods and indexes
  2. yield maintenance or pre-payment penalty terms, required financial documents and third party reports
  3. debt coverage ratio requirement, etc.

## Staff Spotlight

Leah Capobianco

Leah Capobianco joined Conley Associates in 2006. As a consultant, she provides a wide range of tenant representation services to clients. She assists the Client in establishing real estate objectives, performs programming studies, facility reviews, market analysis, financial analysis, site selection and contract negotiation.

Ms. Capobianco came to Conley Associates with a strong financial



and business background. She possesses outstanding economic and analytical skills. These skills, combined with her strong work ethic, helps her achieve the greatest results for her clients.

Ms. Capobianco attended the State University at Buffalo where she earned a Bachelor of Science degree in Health and Wellness. She also earned an MBA from Niagara University.



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- Project Management
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- Advisory Services



**Landlords Need Not Apply.**

Unlike our competition, Conley Associates works with "tenants only". We keep the focus on your business – not theirs!

And because commercial leasing has so many moving parts, we simplify the process with our exclusive "Commercial Real Estate Matrix". This proven system will save you, the prospective tenant, both time and money.

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## **Did you know?**

**The Genesee River is one of the few rivers in the world that flows south to north. It's source originates south of the town of Genesee, Pennsylvania; flowing through western New York, and empties into Lake Ontario-north of the city of Rochester.**