

# A TENANT'S VIEW

Addressing what's going on in the Commercial Market and what it means to Tenants

## 2013 A Look Ahead Real Estate Report

### Current Office Rate Trends In Denver Metro Area

Vacancy rates are dropping, causing a subsequent rise in asking rates. These increases are not astonishing, but certainly noticeable to tenants. A bit of talk exists regarding new product arriving on the market, which is good news for development. Most, if not all, projects are significantly pre-leased. Therefore, we shouldn't expect the increased product to reduce rates or increase concessions anytime soon. Maximizing concessions is key to a good deal. ▲

### Tips For Tenants

On this page, we point out some key concessions and options for which tenants should be fighting. Some are pretty straight-forward, while others are more difficult to gain landlord agreement. For example, it's common to ask for some free rent, but what about asking for termination options? We list a few key concessions in the right hand column.

Most office lease terms are 3,5,7, or 10 years. An uncertain tenant in a down market may assume that a 1 or 3 year term would make the most sense. However, some landlords will agree to a longer term and a termination option. The benefit to the tenant is a locked in rate beyond the 1 or 3 years—for 2,3,5 or more years of term—but also have the option to terminate if needed. With the possibility of a more robust market in 3 years, the tenant needs this option to prevent renewing at a higher rate. Not all landlords will agree to this. However, there are some motivated ones that will. Tenants also need to know that most termination options are accompanied by a termination fee that is often equal to unamortized costs incurred by the landlord. Proving why tenants should have their tenant representative advise them on the best possible scenario for their personal situation, as well as the actual costs associated. ▲



Software Bisque's new building in Golden Colorado Source: Google Maps

### In This Issue:

Current Office Rate Trends..... Page 1  
 Tips For Tenants ..... Page 1  
 Retail Space Considerations..... Page 2  
 Renew or Relocate?..... Page 3  
 Questions Tenants Asked Us ..... Page 4

### Key Concessions/Options

- Free Rent
- Tenant Improvement Dollars
- Prominent Signage
- Free Or Discounted Parking
- Termination Option
- Renewal Options

### Select Office Leases

- Dr. Jeffrey Wilkin Leases 5,000 Sf
- Proconn Leases 3,970 Sf
- Barter Solutions Leases 2,463 Sf
- Razor Technical Staffing Purchases Office Condo In Cherry Creek
- Software Bisque Buys 13,000 Sf Building In Golden
- Colorado Media Leases 5,539 Sf



## Select Retail Deals

- Mellow Mushroom leases 6,800 Sf
- Great Play Leases 3,500 Sf
- St Bon's Leases 2,000 Sf
- Award & Sign Renewals Lease 6,000 Sf
- RMK Cartridge Leases 1,642 Sf
- Interstate Battery Leases 1,147 Sf
- Core Progression Leases 4,485 Sf
- Fire On the Mountain Leases 1,911 Sf
- Roosters Leases at Belmar
- Reverie Living Leases 1,750 Sf
- Treasures leases 5,847 Sf
- Solid Fitness Leases 1,111 Sf

## Select Industrial Deals

- Vosco Moving Leases 7,434 Sf

## Companies On The Move

- Wyoos Leases 1,329 Sf
- Estrada Leases 1,545 Sf

## Retail Space Considerations

*Who's coming and what does the market look like for Franchisees and single store operators?*

Retail, as we always say, is a fickle market. There are numerous franchises coming to Colorado. Without much significant new development in the last few years, prime space is coveted—as reflected in asking rates. While there is a ton of vacancy in retail, the demand for B and C locations is not as high as the demand for prime A space. Therefore, competition is high for the prime space—especially for many new restaurants that are trying to avoid some of the infrastructure costs. For example, there are many restaurateurs who are looking for grease traps and hoods to be in place—or for the landlord to deliver the space in a “restaurant shell”, which would include those items. The economics of a restaurant deal fluctuate from user to user, but the tenant should expect significant costs associated with prime space either in rent, build-out—or both. On the other hand there is a plentiful supply of B and C space currently on the market.

It's paramount that before signing a lease, a retailer know their demographics, along with what they actually mean. Many franchisees are looking to obtain household incomes and total population. However, what about daytime population, traffic counts, and traffic patterns? Numbers don't tell the whole story. Therefore, each franchisee should make sure their tenant representative is providing them with all the factors and necessary research as to why the location makes sense for their business.

Single store operators are generally family owned, resulting in a great deal of risk being invested in the business. Many high-income earners that were hit hard by the economy decided—in the past few years—to open their own stores with family members. The Denver Market has seen many of those operators exploring space. At this stage of the venture, several factors determine whether or not they are able to act on it. Those factors include not only actual costs of operation, but start up costs, and also finding the right location. Finding the ideal spot requires a combination of the correct physical location, ideal rental rates, and a cost that fits into their pro-forma. Many tenants in this situation have sought out the ideal location on their own, finding it to be futile. They may have driven by some amazing spaces, but found them to be too expensive. They get frustrated and often give up. As mentioned earlier, the prime spaces demand top dollar, but plenty of space is available at an affordable rate. The operator will immediately benefit from the use of a professional who knows the market and is aware of vacancies that may be coming available. ▲



## Renew or Relocate Considerations

The state of the market dictates whether there is an opportunity for a “flight to quality”—or a reason to look at more modestly priced space. The driver to decision making is knowing where the market sits and where the tenant stands in relation to the market.

Who wants the tenant more? Leverage is a beautiful thing in commercial real estate. If other landlords want the tenant to lease their space, they will give the concessions necessary to get them to do so—as long as it makes financial sense. The current landlord has no incentive to give more concessions unless they want to keep the tenant and have a reasonable feeling the tenant may actually leave. Again, leverage is key.

When a new landlord is offering concessions, the tenant should account for all factors of the move. In an office move, a per square foot amount and free rent is negotiated. However, you must consider not only the direct moving company costs, but also those most often overlooked. A loss in work productivity and a loss in employees is also possible. These are some, but certainly not all things to consider. Calculating the real cost of moving lies in the details down to the new stationary.

In your current space, it’s the devil you know versus the devil you don’t. You know what your dealing with—and what they will and will not do (or provide) in terms of building service.

Lastly, most tenants didn’t negotiate a moving cost reimbursement amount from a new landlord. Their broker should have! ▲



## Tenant Advocate

**Grillo Commercial Real Estate** was founded on the belief that everyone deserves unbiased and honest representation when leasing or buying commercial real estate.

**Grillo Commercial Real Estate** is a Denver Commercial Real Estate firm devoted to serving tenants exclusively. By serving one side of the negotiation table, we serve our clients better.

## Why A Space Needs Analysis?

Many tenants assume that, if their current amount of office space has seemed sufficient, they will need the same amount upon moving. This isn’t necessarily true. Every building has a load factor and each space is configured differently, therefore there may be more efficiencies in one space than in another. Tenants must also take into consideration the circulation factor when determining square footages. It can save you time and money to request a space needs analysis by a professional. Typically a load factor is between 12% and 15%, while circulation is usually calculated at 35%. This must be added to the basic space needs of adding up offices, open space, break room, conference rooms, etc. ▲

## Tenants Questions For Us

### *Am I getting a good deal?*

This may be the hardest question to answer directly. Most importantly, you must ask yourself if the deal works within your business plan. Does the total occupancy cost meet your budget? Is the price right for the quality of building in the area? Does it fit within your culture and you feel good about the space? If you can answer yes to all of these questions, then you're getting a good deal.

### *How do I know how long of a lease to sign?*

First, ask yourself where your business is today and where you realistically see it to be in the future. That vision needs to coordinate with the state of the market. If you expect your business to be stable and possibly grow, then a longer term lease in a down market makes more sense. Nevertheless, this only holds true if you have the ability to grow within the building in which you plan to lease. A shorter term lease may make more sense if you are in an up market and are uncertain as to how many employees will fill the space within that time frame. Everyone's situation is different, therefore a full analysis is necessary to provide a complete answer.

### *Why use a Broker?*

It only makes sense to hire a professional. There are no fees paid by the tenant. A good broker will save the tenant money, time, and stress. The landlord pays the listing broker to find tenants to occupy his properties. When a tenant broker is used, the listing broker shares that fee. Unlike the listing broker, it's the tenant broker's fiduciary responsibility to serve the tenant—not the landlord. In our opinion, tenants should do what they do best, which is running their businesses. By doing so—with the protection of a tenant broker—they are able to get the best deal. ▲



*Steve Roper of Roper Insurance.  
Another satisfied client!*



*Mark & Lauren Grillo with... Sharon & Morris  
Purcel, owners of Mellow Mushroom Colorado*



*Mark Grillo with John Brackney, President &  
CEO of the South Metro Denver Chamber.*



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