COMMERCIAL REAL ESTATE

Random thoughts on leasing commercial properties

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Contributing Columnist

Today, I decided it would be fun to recall a few random thoughts as they pertain to leasing commercial real estate.

Unlike our residential counterparts, leasing is a big part of our daily activity.

We, as commercial real estate professionals, help occupants find space to lease or buy.

Typically, leases account for 70 percent to 75 percent of our deal volume, with sales taking the balance.

WE DIFFER FROM OUR RESIDENTIAL COUNTERPARTS » Our fees are based on a percentage of the deal's total consideration: purchase price or the amount of rent paid over the term of the lease. Generally, commercial leases run three to 10 years, so the amount of rent negotiated is a significant sum, whereas residential leases are month to month or a year maximum. Consequently, the potential fees on a residential lease — because the term is much shorter — make it unprofitable for residential agents to pursue with vigor.

SUBLEASES ARE A PAIN » A sublease is necessary when an occupant no longer needs the building — for myriad reasons — yet has time remaining on the lease. The owner of the building still wants his rent. So, the occupant resorts to finding a substitute — or a subtenant — to move in and assume the rent. Differences in uses, credit, the number of players and changing market conditions all create the pain in a sublease transaction.

CREDIT REQUIREMENTS OF A PROPERTY OWNER » At a minimum, the owner will look at the total amount of the lease — let's assume $10,000 per month for 60 months, or $600,000. Therefore, the owner is extending the occupant $600,000 of credit, essentially. Through an analysis of the business' sales and credit history, occupants are carefully scrutinized on their ability to repay the $600,000.

PROCESS » Searching for a space to lease resembles searching for a building to buy. The similarities: Facility requirements are discussed — loading, power, office space, warehouse ceiling height, geographical areas. A list of alternatives is toured and a candidate is chosen. Now, the differences occur. A sale will proceed to a negotiation, an agreement, an escrow, due diligence and closing, taking 60 to 90 days. But a lease will involve a negotiation and a lease and will finish up quicker, fewer than 30 days, in most cases.

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