



IN THE NEXT ISSUE:  
The definition of "Net Effective Rent" and how it impacts lease renewal negotiations.

# AMORTIZING COSTS ONTO YOUR RENT

## TIPS, TRICKS AND COMMON OVERSIGHTS

### What to keep in mind when costs are amortized onto your lease.

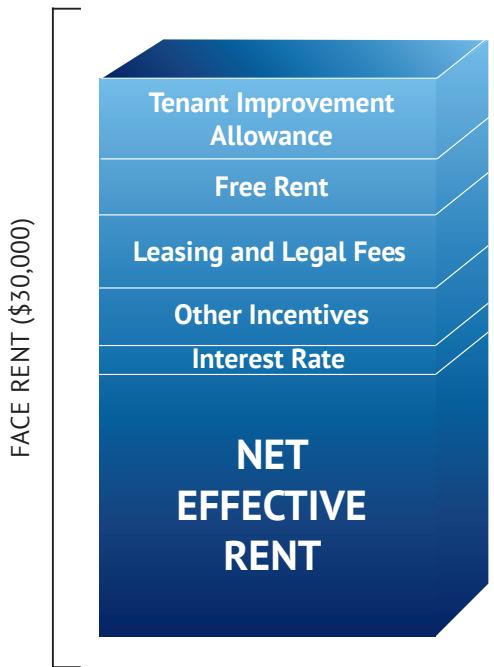
Often, property owners will offer an "Improvement Allowance" and amortize other incentives onto the rent of a commercial tenant during a new lease or renewal negotiation. How does this work?

In the vast majority of situations, a property owner or landlord will offer an allowance called a "Tenant Improvement Allowance" (or some combination of similar names) whereby some of the costs that a tenant would incur to construct or occupy a space are amortized onto the lease. In these situations, a landlord typically reimburses a tenant when receipts for construction or other costs are provided after the space is completed and occupied.

This process can provide an easy form of financing for the tenant to save some initial capital costs, but is it worth it in order to avoid having to write a larger cheque?

Unfortunately, many tenants fail to ask some important questions during this process and wind up paying far more than they need to. First and foremost, when a landlord is willing to amortize a charge, it is a form of financing. Therefore, the first question that should be answered is the rate at which the landlord is amortizing / financing the charge. The vast majority of owners and landlords in Canada amortize these costs between 7 and 12% - lending rates at banks are often less than half of this charge! This can cost an average sized tenant tens of thousands of dollars in needless interest charges.

But wait....there's more!!!!



## WHAT IS THE RATE OF AMORTIZATION?

When a landlord amortizes a tenant cost onto the rent at such a high amortization rate, it also bumps the net rental rate by a commensurate amount. Landlords benefit from this higher rate by typically getting more financing and accelerating the leverage (and return) on their properties. For the tenant however, the net rent bar is set artificially high for when the tenant renews their lease during the next term. Often you'll hear a landlord ask for a modest rent increase during a renewal despite that the initial incentives and amortized benefits (the "extras") are missing... Even if you renew your lease at the same rent, you lose.

## WHAT IS BEING AMORTIZED ONTO MY RENT?

But wait, there's still more.... Tenant allowances are not the only things amortized onto your rent! Often, you'll hear an unsuspecting tenant say that they are being helped by the real estate agent to find new space and help negotiate it "at no cost..." *Really?*

Unless you contractually engage and pay an agent directly, real estate fees are also amortized onto the rent at the same high amortization rate. Is it realistic to assume an experienced real estate agent would work for free? The worst case scenario is when a tenant winds up trusting an agent who works for the landlord and then pays a huge fee for those services which is amortized onto their rent. This is akin to the defendant paying for the plaintiff's lawyer!

## TOP SECRET TIP

*Commercial leases are lengthy, complicated and incredibly expensive. Therefore, it is critical to retain an expert that works under contract on your behalf where fees are transparent. Remember, any time you call a building sign, you are calling either the landlord or an agent who works for the other side.*

## A Little About Us:

We are a specialized Commercial Real Estate firm that provides advisory services for tenants. We focus on companies where location, position and/or rent has a tangible effect on financial performance. Our mission is to help our clients increase profitability through real estate.

We have regional offices in Vancouver, Toronto and Calgary, with partner offices in Edmonton, Winnipeg, Montreal and the Maritimes. Our account executives combine industry leading programs, process and analysis with experience to ensure our clients obtain and maintain great locations at favorable terms.

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