



EXPERT ADVICE:
Time Value of Money (TVM) factor in decision-making processes
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THE ART OF EFFECTIVE QUESTIONING:
Four money-saving questions to ask before signing your commercial lease agreement
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FINDING A COMMERCIAL REAL ESTATE LOCATION

TIPS, TRICKS AND COMMON MISTAKES

Expert insight on the process and pitfalls of securing the right location for your business.

Whether it's leasing an office, a warehouse bay, or a location for a retail store, most businesses require some form of commercial real estate to house their operations. The process seems simple enough... You search within a desired area, call the property leasing signs, speak with agents, and eventually tour the alternatives to find a location that fits your company's needs.

But is it that simple?

The average commercial real estate lease in Canada is between 5 and 10 years. The costs associated with rental of a location during that period can have a substantial impact on a company's financial statements (see inset on next page). For companies where location has a tangible effect on the Profit & Loss Statement, it is one of the most critical (if not *THE* most critical) business decisions as it impacts both top line revenue AND is a major expense line item. For most retail and service companies, the lease also underpins the valuation of the business. For office and warehouse tenants, the effect can be no less dramatic - as we typically spend more time in our place of work than we do at our homes!

Following is a list of tips have been developed and tested by some of the most knowledgeable real estate experts in the field. In the ongoing quest to increase profitability, maintain corporate culture and establish competitive advantage, today's savvy executives view the location search as a great opportunity to evaluate and review the evolving needs of the business.



STEP 1: DETERMINING AND RESEARCHING A LOCATION

Take the opportunity to integrate your location needs with your business plan and culture. While the average commercial real estate lease in Canada is between 5 and 10 years, the average tenancy is typically longer. Savvy executives evaluate both short term and long term business needs, along with the financial and functional effects on the business.

For typical office tenants, the average Canadian employee spends over 2,000 hours at their office every year.

STEP 2: UNDERSTAND THE FINANCIAL IMPACT LOCATION HAS ON YOUR BUSINESS

As mentioned, the financial statements of retailers, restaurants, service companies and many light manufacturing companies are greatly impacted by location. Without well positioned locations and certainty of lease term, the value (and future) of the business is jeopardized. For firms that have larger or multiple space requirements, the financial impact is even greater. Several large brands pay over 1 billion per year in rent while even medium sized office tenants can wind up paying millions of dollars over the course of a lease. Even modest savings can have a substantial effect when multiplied over numerous years or locations. Accordingly, we suggest committing the appropriate resources.

| OFFICE TENANTS | WAREHOUSE TENANTS | RETAIL TENANTS |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Assumptions:</p> <ul style="list-style-type: none"> • 5 year lease on 3,000 square feet of space. • Base* rents of \$20 per square foot and operating** costs of \$12 per square foot. <p>Assuming Modest TVM* increases, you'll pay more than \$500,000 in rent during your lease.</p> | <p>Assumptions:</p> <ul style="list-style-type: none"> • 5 year lease on 5,000 square feet of space. • Base* rents of \$10 per square foot and operating** costs of \$7 per square foot. <p>Assuming Modest TVM* increases, you'll pay more than \$425,000 in rent during your lease.</p> | <p>Assumptions:</p> <ul style="list-style-type: none"> • 10 year lease on 2,000 square feet of space. • Base* rents of \$30 per square foot and operating** costs of \$10 per square foot. <p>Assuming Modest TVM* increases, you'll pay \$400,000 in rent during your lease....per store!</p> |

*TVM=Time/Value of money

STEP 3: UNDERSTAND THE FUNCTIONAL IMPACT LOCATION HAS ON YOUR BUSINESS

Understanding and assessing the functional impact that location has on your business as a tenant is very important in the process. Evaluating and then capitalizing on the broad array of options will go a long way to obtaining the right work environment. Following are the most common functional aspects that may be applicable:

OFFICE

- Proximity to home / employee access
- Building amenities
- Parking
- Size & flexibility
- Building aesthetics
- Area amenities

WAREHOUSE

- Proximity to customers
- Proximity to suppliers
- Proximity to home / employee access
- Loading, ceiling heights,
- Accessibility

RETAIL

- Demographics
- Accessibility to customers
- Exposure to customers
- Quality & quantity of traffic flows in area
- Parking & signage

STEP 4:

WHAT IS THE EASIEST WAY TO OBTAIN THIS CRITICAL INFORMATION?

Typically, a commercial real estate agency is where many start. When you find a location that appears to fulfill many of your criteria you simply *call the sign on the property* and wind up *speaking to the listing agent or the landlord*.

What many unsuspecting tenants do not realize, is that unless *dual agency** is disclosed beforehand, **the listing agents' fiduciary duty is to the landlord, while their legal obligation is to achieve the highest rates/price and the best terms on behalf of the landlord/property owner.**

For more information on Dual Agencies, see our whitepaper *What to expect when you call the "For Lease" sign*.



Ironically, many people spend more time researching what lawnmower they will purchase for \$500 than the location they will occupy for the next 10 years and spend \$500,000 in rent...

Moreover, there are functional lease terms that can make a poor rent deal seem insignificant!



EXPERT TIP

ASK FUNCTIONAL QUESTIONS THAT OTHERS DON'T THINK TO ASK:

Understanding the market, obtaining comparables, and establishing a "fair market" rental transaction is only the first step. Knowing the landlord, understanding their debt structure and objectives, knowing what's happening in the vicinity of the premises, understanding whether the property is suffering from deferred maintenance and understanding the operating cost structure is critical. Accumulating a knowledge base on these (and other) elements is important when making a long term real estate decision.

QUESTION 1:

WHAT IS THE STATE OF THE PROPERTY?

The old adage "you get what you pay for" holds true in commercial real estate property, so be mindful of properties where there is deferred maintenance. Given the amount of time most spend in their offices, is it worth it to save a few pennies on rent while sweating at your desk in summer or freezing in winter? HVAC, roof membranes and building elements need periodic repair and replacement. As a tenant you could be saddled with either an intolerable surrounding or skyrocketing operating costs without proper due diligence.

QUESTION 2:

WHO IS YOUR LANDLORD?

A landlord-tenant relationship is a long term partnership. Are they wasteful on common area charges? Do they ignore tax appeals and merely pass the charge onto the tenant? Are they a REIT that will sacrifice long term building needs for short term unit-holder distributions? Given that a lease can often exceed the duration of a marriage, we highly recommend a "screening" process where you can determine if they are the right "match".

QUESTION 3:

WHAT IS THE OPERATING COST STRUCTURE?

Operating Costs can often exceed the base/net rent on a property. Given the substantial expense, one has to question why so many firms fail to give it proper consideration during lease negotiations. Are the chargebacks in-line with the condition of the building? Are they too little? (indicating the potential for deferred maintenance costs). Is the landlord able to recapture additional costs if the building has vacancy? There are numerous important considerations when evaluating the myriad of expenses that are charged back to tenants that can often make the extra 50 cents of base rent you negotiated seem "trivial".

QUESTION 4:

WHAT ARE THE LEASE TERMS?

Negotiating a good offer to lease can save you legal fees and ensure your legal counsel has room to finalize a balanced lease. The opposite can handcuff your legal counsel and leave a firm highly exposed. For example, if you decide to sell your company and the landlord has restrictions on the transfer, it can cripple a firm's enterprise value. What about demolition and redevelopment clauses, etc.? All too often, a consultant is engaged to "unwind" a poorly negotiated lease at an exponentially higher cost than had the lease been handled by an expert in the first place.

TOP SECRET TIP

Some landlords underestimate the value of a lease negotiation as well... which provides an excellent leverage opportunity. Sending in an experienced real estate expert armed with local market knowledge against a junior leasing manager can often yield very profitable results.

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.

Please visit our website at www.orangegroup.ca or call **Grant Kosowan** at **403 209 4291** for more information or to book a presentation.



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