The Commercial Property Leasing Guide
A RESOURCE FOR LANDLORDS & PROPERTY OWNERS
The broker showed up with a big, fancy proposal and made me all sorts of promises about what she would do for my property—but nothing has happened.

What really makes me mad is that the building down the street just leased to a tenant that I didn’t know was looking.

He hung a sign and made a flyer... and then waited for the phone to ring. I haven’t heard from him in a month, so I assume he hasn’t done anything.

We want to ensure you never say this.

That’s why we created this guide exclusively for landlords and property owners, to help you choose the right business partners—brokers and property managers.

We also offer suggestions on setting the right strategy for your building and following through with measurable solutions and accountability.
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ACCESSING THE RIGHT RESOURCES AT EACH STAGE OF OWNERSHIP

This is not a promotional brochure. It’s not about us. It’s about you—owners and asset managers—and how to get the most out of the services provided by brokers and property managers.

We’re working to fundamentally change your experience from a relationship with a vendor to a strategic partnership.

What makes a partnership work? We listened to dozens of success stories—and horror stories—from clients, brokers, property managers and asset managers to find out. This book is about how to carefully choose your business partner, and how to set up systems to ensure future success.

A key theme that emerged was that owners want their service partners to see them through a property’s full life cycle.

That’s why our approach is based on an integrated team, including brokerage, property management, valuation, project management, mortgage banking and consulting. Although you might not need all of our professionals at all times, we believe the team approach helps us offer a seamless experience at any stage.

At Colliers, partnership means approaching assignments with clients’ interests first, and treating the property as if it were our own.
Top 12 Landlord Mistakes

MAJOR MISSTEPS THAT CAN SLOW OR DERAIL YOUR LEASING EFFORTS

1. Signing leases without a strategic plan. A whole-building approach to leasing is critical to achieve the best rates and best tenants.

2. Leasing the best space first. This can devalue the rest of the building’s available space, such as leasing half of a floor with a better view, or leaving small spaces vacant.

3. Failing to ensure each tenant’s lease terms support the long-term investment objectives for repositioning or disposition.

4. Faulty termination clauses that allow tenants easy “outs” can leave you, the landlord, with unamortized costs from tenant improvements (TIs), incentives and fees.

5. Hiring a broker without the right specialization—experience working with properties of a similar type and location.

6. Failing to investigate the tenant’s finances, business plan and revenue stream, and failing to require a substantial security deposit.

7. Allocating capital incorrectly: spending money on things that won’t help lease the building, such as replacing sconces on the exterior of a building. A better use of funds might be replacing dated light lenses in a vacant space to refresh it. Ask, “Does my improvement help lease the building more quickly or at a higher rate?” before spending.

8. Choosing incompatible tenants. Placing a staid law firm next to a bustling sales organization or a come-as-you-are creative firm is bound to create friction.

9. Pricing the building incorrectly. Holding out for an extra nickel or dime in pricing may keep the building stuck in vacancy limbo.

10. Failing to evaluate the competition. Ruthlessly compare your building’s pros and cons against competitors—aided by your broker—to determine your unique selling points and high-impact improvements.

11. Forgetting the small stuff. Prospective tenants can be turned off by the little things, so keep empty spaces free of debris, lights working and blinds open. Common areas should be clean, parking and signs in good condition, and consider investing in seasonal plants at entrance points.

12. The biggest mistake? Lacking a story. Your building should have a compelling message that differentiates it from the competition.

The building’s story should be tailored to a key tenant driver, such as visibility, tech infrastructure or accessibility. Some landlords develop a theme or foster tenant clustering.

The “story” is a creative element of a leasing business plan that many brokers fail to develop. Your broker will collaborate with you to identify and enhance your property’s unique story, and then use that story’s powerful potential to drive tours and contracts.
Ask Tougher Questions

TEN QUESTIONS TO CLEAR THE CLUTTER
AND HELP YOU CHOOSE THE RIGHT PARTNER

Virtually every commercial real estate broker tells property owners the same story. They are experienced. They’re knowledgeable. They’ll work hard. They’ll spend a lot of time on the project. They promise, promise, promise, promise.

BUT WILL THEY DELIVER?
Choosing a broker as your business partner is daunting, especially when wading through a sea of sameness. These points—questions to ask when hiring—are designed to clear the clutter, and help you choose the partner who best fits your needs.

WHAT IS THE BROKER’S SPECIALIZATION?
Does he or she focus specifically on the geographic area where your building is located and your building’s type and class? Does the broker specialize in representing owners?

We believe it’s impossible to know the market unless you live, sleep and breathe it, which is why we strongly support specialization.

WHAT IS THE BROKER’S EXPERIENCE?
Your broker should provide information on his or her track record of dealing with similar leasing challenges, similar building types and buildings in the same area.

WHAT IS THE BROKER’S MOTIVATION?
Will your goals for the property be aligned with the broker’s goals? For example, hiring a broker who is not specialized in properties like yours might mean he or she spends less time studying your submarket and specific challenges in-depth.

WHAT IS THE BROKER’S CAPACITY?
Some brokers who claim to dominate the market have taken on so many assignments that your property will not be their top priority (or even close). These brokers may speak only in general terms to what they’ll do for your property.

To ensure your broker will devote substantial time to the project, ask to see the broker’s detailed marketing strategy and action plan.

For example, ask whether the broker will be present at every property tour. They can describe the value proposition of the building, learn about the motivations and needs of the prospect, and hear feedback that can help your positioning.

WHAT ARE THE BROKER’S RESOURCES?
Many boutique and local commercial real estate firms have very limited platforms, with little research, marketing and administrative support.

At Colliers, we believe a collaborative approach serves our clients best, which is why a portion of your gross commission dollars supports our specialized team of researchers, marketers and administrative staff, who provide deeper market insight, unique go-to-market strategies, and responsive administration.

Our resources cross geographic boundaries, property types and client types.

WHAT IS THE BROKER’S SERVICE GUARANTEE?
Although no one can guarantee an outcome based on the marketplace, our sales professionals and their support teams are committed to keep their promises.

That means we guarantee our services through a specific action plan. We will define, from the beginning, expectations for service, reporting and accountability.

WHAT IS UNIQUE ABOUT THE BROKER’S KNOWLEDGE?
Beyond the quarterly market reports that every company seems to have, what kind of insight can your broker offer? What uncommon market knowledge will help you identify trends and take advantage of them, or ensure that you see every tenant prospect in the market?
WHAT IS THE BROKER’S METHODOLOGY?

Find out whether the broker considered all of the possibilities for your building before they selected their action plan.

Too often, brokers simply recycle a proposal from one owner to the next. We believe you deserve a plan tailored to the unique opportunities and challenges of your property.

WHAT IS THE BROKER’S STRATEGY?

Many brokers submit a laundry list of marketing tactics to a landlord and call that their strategy. But prospecting for tenants requires a more thoughtful approach on two levels.

First, the broker must define which tenants are most likely to lease the space and pay the highest price. The characteristics of this group should be used to sort the database. The broker should describe how a high-touch, personal and fast-acting campaign will be implemented.

Second, the broker must define how each marketing element connects with a specific group of potential tenants, including those prospects that you didn’t even know were looking.

A marketing strategy that takes each prospect through the transaction filter to build awareness, understanding, interaction and then cement the transaction is critical. Otherwise, your broker may be basing your building’s promotion on little more than a flyer, a sign and a prayer.

HOW WILL I KNOW I’VE SEEN EVERY OPPORTUNITY?

Among owners’ greatest fears is missing an opportunity to lease their space to the best possible tenant. The broker should provide a clear plan for defining, approaching and converting likely tenants, as well as a supporting broadcast marketing program (such as advertising, online listings and signs) to ensure every potential tenant is aware of your building’s opportunity.

If you’ve worked with several brokers in the past, consider which of them were true business partners, working in an advisory capacity to support your building’s value long after the tenants had been placed in your vacant space.

Your assignment should open the door for the broker to add value to your business, both now and in the future.
A relationship with the property manager is key to tenant retention.

It seemed like the hard part was behind them—the broker identified a good prospect, brought the firm in for multiple tours, helped the owner through negotiations, shepherded the contract through legal review and, finally, handed the keys to the new tenant.

And then it all fell apart.

The number one reason that an owner’s relationship with his or her tenants falls apart is lack of communication—and this is often the responsibility of the property manager.

For example, one property manager sent tenants a memo about street construction the next day. And sure enough, the next day, the property owner got a call from a tenant who was shouting into the phone because he couldn’t be heard over the jackhammer in the street. There was no way his sales force could work with that kind of disruption.

The property manager could have worked out the problem in advance, by scheduling the contractor for a day the sales organization was closed, by temporarily relocating the sales force, or by rebating rent or another financial incentive for tolerance. But after the fact, few solutions were possible, and the tenant said, “You’ll be hearing from my lawyer.”

“Tenants have long memories,” said a Colliers manager, who previously worked as an owner’s representative. “You can have the best customer service on the planet, but when property management breaks down through lack of foresight or poor communication, that one action can strike a fatal blow against all the goodwill you had built up.”

That’s why owners should carefully select a property management company with the experience to anticipate and solve problems before they happen, and the resources to take care of issues immediately.

Colliers’ 24-hour Service Center logs, tracks and reports every call to reveal common tenant concerns, frequent maintenance challenges and property trends. These are reported back to the owner for a complete perspective on the property.

Property managers must also get out of their offices frequently to walk the building and personally connect with the tenants. Only through this routine face time will they notice simple things like a broken handle or missing outlet cover.

A towel dispenser hanging askew might never be reported by tenants—it’s not critical—yet tenants will continue to be annoyed by it until it’s fixed.

Security personnel can be a strong partner, as these people are often the most visible members of the building staff. Those who learn tenants’ names and make an effort to provide a personal touch can take the tenants’ overall experience from average to exceptional.

Ultimately, property management is an essential link to a building’s positioning. When a manager demonstrates they care about the building, in the tenant’s mind, it also means “they care about me.”
The True Cost of Vacancy

HOW THE COST OF REPLACING A TENANT CAN ADD UP FOR PROPERTY OWNERS

Losing a tenant can be a bigger financial blow to owners than simple loss of income. The cost to re-lease and refurbish a space can add up, which is why spending a little extra to ensure strong tenant retention can yield solid financial returns in the long term.

We suggest taking into account the full scope of potential costs when choosing whether to renew a tenant in their existing space.

Vacancy time—no lease payments made
Marketing costs—signs, open houses, direct mail, property web sites, tour incentives
Leasing costs—brokerage commission, leasing incentives

**Professional services**—including space planning, architectural and consulting services
Demolition—removal and disposal of the former tenant’s improvements
Materials—for tenant improvement construction
Labor—for demolition, construction and systems installation
Moving costs—a typical incentive to encourage a tenant to relocate
Free rent—in some markets, free rent may be offered in lieu of or in addition to tenant improvements

**Signs**—both inside and outside the building
**Professional services**—legal, accounting and management fees
**Relationship**—to other tenants: is another tenant’s business tied to the departing tenant’s?

**TENANT SURVEY**
Tenant surveys can increase satisfaction for your current tenants, and highlight both benefits and problems with your property.
Surveys offer a rich source of information to owners and brokers who are preparing a leasing strategy for the property’s vacant space.

Tenants can also be allies—or detractors—in the leasing process.
Consider asking these questions, and be sure to follow up on any “trouble areas” as well as using the information from the latter two questions to create your building’s story.

- What are we doing right?
- What can we do better?
- What about the property supports your business goals?
- Why did you choose this property/location?
Beyond Curb Appeal
DEFINING THE PROPERTY’S UNIQUE VALUE AND HAMMERING IT HOME WITH PROSPECTS

A standard approach to marketing commercial real estate—how much space, how much cost—is an analog approach to this new digital world.

Many commercial real estate flyers advertising vacant space fall into the same ho-hum, heard-it-before advertising patterns: “Well-located, modern building with flexible spaces and good parking. Access to restaurants and services minutes away.”

Which building is that? It could be any property. It’s like a personal ad that says, “I enjoy long walks on the beach, nice restaurants and good conversation.” Who doesn’t?

Differentiating a building starts with a specific inventory of the building’s attributes, both inside and outside of the structure. Your brokerage professional will create a story about the uniqueness of your space to help you avoid the price wars of commodity space.

For example, a five-block office and retail project was perceived to be on the fringes of downtown. By heavily marketing the development’s next-door neighbor—a world-famous bookstore—the broker literally got the project on the map in the minds of prospects.

By identifying the property’s authentic differentiating factors, you’ll find the “hook” you need to stand out from a sea of so-called “well-located” properties.

For example, the owner of one building realized that there were five ways to get in or out of his property, while the competing buildings had only two. As a result, he positioned his property to court companies with an in-and-out sales force or a high volume of clients who come and go throughout the day.

His story about the building’s unique and unparalleled access created a compelling selling point, attracting some businesses that hadn’t considered the importance of this access.

Another landlord realized that his building’s large floorplates were perfect to accommodate a sea of cubicles, and a work force that would come in the morning, stay all day, and then go home. Although he had planned an expensive lobby upgrade, he cancelled plans for this due to the fact that it wouldn’t impress his tenant targets—they didn’t have many clients visiting, so they weren’t willing to pay higher lease rates for a building with expensive art and marble in the lobby.

It’s critical to take into account the culture of a city and the building’s location. Some cities have a walking culture, skybridges or underground building connections to protect occupants from inclement weather. In other cities, anything more than a two-block distance will prompt employees to reach for their car keys.

Use a realistic approach to what “walking distance” means in your city, and then draw that radius on a map around your building. By fully investigating all of the businesses and services in your building’s area, you may be able to offer prospective tenants far more amenities than they first see.
Telling a Story

CONSIDER THESE THEMES TO DEFINE YOUR BUILDING’S UNIQUE ADVANTAGES

TRANSPORTATION FOCUS

- Near transit (bus, light rail, streetcar, etc.)
- Ingress/ egress to the building
- Easy freeway access
- Free or less-expensive on-site parking
- Preferred/reserved parking spaces available
- Car-sharing service on site
- Carpool parking free; designated parking

SUSTAINABILITY/ GREEN FOCUS

- LEED-certified building
- Modular and sustainable tenant improvements
- Alternative transportation support, e.g. bike lockers, transit, car-sharing or carpooling
- Building recycling & composting program
- Farmer’s market nearby

FAMILY FOCUS

- On-site or adjacent daycare; short-term parking for pickup and drop-off
- Near community center
- Near schools
- Near park, "splash pad" or kid-friendly water feature
- Room provided for breastfeeding moms

FITNESS/ LIFESTYLE FOCUS

- Bike storage, lockers or showers on site
- Near fitness center or swimming pool
- Park or open area for lunch al fresco
- Rooftop garden or patio
- Located in an area favored by an employee demographic for housing or entertainment

LEISURE/ CONVENIENCE FOCUS

- Excellent restaurant on ground floor
- Client entertainment space or conference room with catering available
- Adjacent or on-site services such as grocery, pharmacy, medical, dry cleaning or convenience/ sundry items
- On-site or adjacent business, shipping or copy center
- Retail, food and services located near industrial parks

CLIENT/ INDUSTRY FOCUS

- Cluster around a courthouse or other government building
- Adjacent to clients, suppliers or similar businesses within a specific industry
- Building name or business park reflects industry cluster
- Space located near marquee brands, such as a luxury retailer on the ground floor of a downtown office building

TECHNOLOGY FOCUS

- Wi-Fi-enabled lobby with work stations or modular furniture
- In-floor cables for easy office reconfiguration and access
- High-speed internet trunk line, full-building Wi-Fi, high quality telecom
- Data storage or backup services available
- Strong HVAC or high-capacity electrical for heavy user of electronic equipment
Having All the Answers

INVESTIGATING THE BUILDING’S ATTRIBUTES WILL AVOID DEAD-END PROSPECTING

Many landlords and their brokers fail to investigate their buildings’ full set of possibilities and drawbacks before taking it to market. These are some often-overlooked considerations that can make or break a deal with a potential tenant.

EFFICIENCY

A competing property might offer a slightly lower lease rate, but the leasing agent can combat this by speaking to the space efficiency of the owner’s building.

For example, the competitor may offer a 10,000-square-foot space with a 20 percent load factor, meaning that one-fifth of the leased space on which the tenant pays rent is not usable for business purposes—it’s made up of elevator lobbies, hallways and restrooms.

The landlord’s property may offer 10,000 square feet with a 12 percent load. Even if the competitor’s rent is cheaper, the landlord’s building may be a better deal because the tenant can fit 42 desks in that space, but only 35 desks into the office with the higher load factor.

BUILDING SYSTEMS

Infrastructure can have a big impact on the feasibility of certain uses, and some landlords find out too late that they are pursuing business they can’t possibly accommodate.

For example, technology users with major power and cooling needs might not be right for a building that lacks the HVAC muscle. In another case, a mobile workforce that needed substantial guaranteed parking wasn’t the right fit in a downtown building that already had too many monthly parking contracts.

Choosing the right target audience will avoid wasting time and effort on those never-going-to-work tenants. One downtown market did not have cable, only satellite, so brokers realized it was a waste of time to pursue any business that required cable. Companies with phone providers that require a redundant fiber loop will also be the wrong fit for a building that lacks this system.

MANAGEMENT

Property managers are tenants’ primary point of contact with the building owner. Smart prospects may speak with other building tenants before signing to find out about the manager’s responsiveness and the quality of the management, engineering, security and janitorial services.

So before taking a property to market, consider the performance of the property manager, their level of involvement with the property and their face time with existing tenants. Based on regular tenant surveys, Colliers has found the No.1 factor that determines tenant satisfaction is the quantity of contact tenants have with the property manager.

You can also take steps to solve the most common tenant complaints:

- The heating, ventilation and air cooling system (HVAC) must be working well (building temperature is the No. 1 tenant complaint)
- Janitorial/cleaning staff must be prompt and thorough
- Elevator must be in good working condition
- Parking must be easy to find and access

TENANT MIX

Some buildings are marketed to the wrong prospects simply because the existing tenants were not taken into account. It’s not only that some tenants will clash with others, but also that positioning a building as “the place to be” for a targeted group of companies will actually support a higher rental rate. Tenants that see a specialized opportunity with a combination of benefits that are unmatched in the marketplace are more likely to pay higher rates.

While many companies look to the bottom line cost when deciding where to locate, that is rarely their only consideration. A “cool” factor or singular benefit might be enough to sway the decision if all things are equal between competing properties—but they rarely are equal. That’s why it’s critical to develop a handful of benefits that add up to a singular value proposition for tenants.
GREEN BUILDING

Sustainability is much more than a buzzword; many local governments have mandated green buildings and businesses are increasingly moving this building attribute from the “nice to have” category to the “must have” column, as an essential aspect of supporting their brands.

It’s important for the broker to be well-versed in green building terminology and practices, so that the building in question can meet tenants’ specific requirements. For example, the Leadership in Energy & Environmental Design (LEED®) Green Building Rating System™, provided by the U.S. Green Building Council and other GBCs worldwide, offers multiple levels of certification, from platinum to bronze, to describe how “green” a building is.

Colliers provides both broker and client education to support sustainable buildings and sustainable business practices, helping owners develop, purchase and improve high-efficiency buildings, and strategically lease buildings with green attributes.

Studies cited by the USGBC have shown that green buildings command higher prices in sales and leasing, and typically have a faster lease-up rate than conventional buildings.
The worst-case scenario for an owner starts like this: he or she issues a request for proposals, and receives several thick tomes describing a commercial real estate firm’s services, staff, history and track record (but alas, precious little information about what the company proposes to do for the owner’s building specifically).

After the interviews (which often feel more like infomercials), the owner chooses the most experienced team, or the team that makes him or her feel most comfortable. The contract is signed…and then, nothing. The phone doesn’t ring. The owner hears little from the broker. Perhaps a sign goes up and a flyer goes out, but few tours happen, and the owner is left to wonder if the broker is doing anything at all. He or she can only assume the worst.

At Colliers, our managers are well aware that owners have been in this situation, because many of them were investors themselves or served as owners’ representatives.

That’s why our approach to reporting and communication with landlords starts with a commitment to a single point of accountability—your one-stop source for all of the information about leasing progress on your building.

That broker is backed up by his or her managing director and by brokerage team partners who collaborate to ensure the building gets the maximum exposure possible.

In our proposals, we commit to describing our work in detail—not just a laundry list of tactics, as you may see in other proposals, but a specific strategy outlining which tactics are appropriate for your property and on which target market each tactic will be implemented.

This specific commitment to performance is coupled with information on who will do it and by what date it will be done, giving you the ultimate assurance that the project can and will be completed on time.

Status updates are also stronger when communicated in context. Your broker may recommend a specific “competitive set” of buildings similar in size, location, amenities, price or quality, and report on leasing activity in these buildings as well.

This gives owners a baseline, a well-rounded perspective on the market’s activity, and a regular assessment of how competitive their building is in context with its rivals.

Owners and brokers should also work together from day one to define the best methods of communication—how frequently the owner will be updated, how formally, and how thorough the update will be.

They should define in what format the owner will be updated, such as by e-mail, by spreadsheet, or through an online, real-time Client Activity Tracking System (CATS) provided through Colliers’ proprietary IT platform.

Brokers can offer a variety of reporting frameworks and work with owners to tailor reporting to the owner’s specific needs and concerns.

A unique aspect of reporting that has been used successfully in several markets is touring feedback. While many brokers simply speak with the tenant prospect’s broker after a tour, Colliers brokers have found that an incentivized process for gathering tour comments yields specific, actionable and unique feedback.

For example, in one property represented by Colliers, both tenant prospects and their brokers go to the property’s custom web site and fill out a short, eight-question survey about their impressions of the building. Those who take the time to answer the survey receive a $30 Visa gift card.

This not only gives the owner and owner’s broker two more opportunities to connect with a prospect (through the web site and by mailing the gift card), but also provides valuable and sometimes surprising comments on the building.

It guided the landlord in this case to offer free Wi-Fi and modular furniture to his lobby, enabling tenants to have a “breakout” meeting session without leaving their own building.
KEY CONTRACT CONSIDERATIONS

- Base rental rate per square foot
- Rental rate spikes—their timeline and basis
- Move-in date
- Load factor—percentage of unusable area
- Tenant improvements—owner and user contributions
- Incentives, such as free rent and/or moving costs
- Tenant credit and financial statements
- Security deposit or other guarantees
- Termination clauses
- Tenant’s history in other buildings: landlord references
- Make-good clauses, which may specify the tenant removes some TIs or returns the TIs to a previous condition
- Adjacency or anchor tenant clauses—allowing the tenant to break their lease if another tenant pulls out, or excluding certain other industries or competitors from also leasing in the building
- Contract extensions allowed, in what time periods and at what price
- Supplied infrastructure and utilities