

# Industrial Leasing Guide

WHAT YOU NEED TO KNOW BEFORE YOU SIGN

## THE INDUSTRIAL LEASING GUIDE

This step-by-step guide has been assembled to reflect **Colliers International's** knowledge of the leasing process. You'll find information on tenant improvements, common pitfalls, timelines and frequently asked questions.

The information in this handbook will assist you in making a more knowledgeable decision while minimizing disruption to your business.



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Your step-by-step guide

# Allow Us to Introduce Ourselves

## ABOUT COLLIERS INTERNATIONAL

### WHO IS COLLIERS INTERNATIONAL?

Colliers International is the leader in global real estate services, defined by our spirit of enterprise. Through a culture of service excellence and a shared sense of initiative, we have integrated the resources of real estate specialists worldwide to accelerate the success of our clients.

The foundation of our service is the strength and depth of our specialists. Our clients depend on our years of direct experience in the local market. Whether you are a local firm or a global organization, our industrial specialists are ideal business partners to provide creative, strategic solutions for all your real estate needs.

### WHY ENGAGE OUR SERVICES?

Our industrial professionals give you the expertise to navigate complex sales or leasing transactions and make strategically sound, long-term decisions. Colliers is uniquely positioned to help you find innovative and practical ways of achieving a business advantage from your commercial real estate transactions.

Your real estate decisions today will affect your company's bottom line long into the future. Each mile that separates your facility from a supplier or customer creates a ripple effect in time and cost. That's why location is critical. Combining the knowledge of locally-based analysts with the shared expertise and resources of a global platform, your Colliers professional can help you understand and take advantage of current market trends.

### CAPABILITIES

- › Tenant Representation
- › Sale vs. Lease Analysis
- › Lease Negotiation & Renewals
- › Lease Administration
- › Site Selection
- › Build-to-Suit
- › Reposition/Retrofit
- › Construction Management
- › Property Due Diligence
- › Highest & Best Use Studies
- › Appraisal/Valuation
- › Relocation
- › Consolidation
- › Logistics Consulting
- › Trend Analysis
- › Sale/Leaseback

# Getting Started

MAKING EDUCATED DECISIONS ABOUT YOUR BUSINESS SPACE



## WHAT ARE MY OPTIONS?

Examine all your options carefully. Do you stay in your current location or relocate? At first, relocating may seem like more trouble than it's worth, but don't rule it out right away. Often the status quo isn't the best financial alternative. Think about what you want to achieve and then decide if your existing location supports that objective. Your Colliers industrial specialist can sit down with you and map out the most important financial and personal factors in your decision.

### Stay put

If your existing space satisfies your current and long-term business needs, but you are approaching the end of your lease, consider renewing. We can help negotiate a new lease with the building owner.

### Relocate

The expiration of your lease can offer you an opportunity to transform your business by relocating.

## WHY SHOULD I RELOCATE?

### Business Needs

If your current space is—or will become—too small, too large, outdated, or poorly configured, a new facility can be an opportunity to increase your labor pool, strengthen productivity, streamline operations, increase workforce morale, or reduce transportation costs. Additionally, market conditions or municipal business development incentives may support the business case for relocation.

Colliers' industrial professionals have a long track record serving clients in the manufacturing, warehousing and distribution sector, so they can understand your business needs and help you weigh these factors strategically.

## HOW MUCH WILL IT COST?

The negotiation of rent and tenant incentives depends on the dynamics of your local market. Contact your Colliers professional for the market trends in your location.

This should also be viewed as an opportunity to rethink the ways in which your existing facility affects operational costs. Can your operation be reconfigured, upgraded, expanded? Are there operational decisions you've been putting off because of an aversion to moving.

## WHEN SHOULD I START?

### Plan, Plan, Plan

Whether you decide to stay or go, knowledge is key. Understand your current situation, review other options, and assess the marketplace context to optimize the end result. The period required to conduct a lease negotiation and relocation is six to nine months at a minimum. Depending on the size of your organization and current market conditions, you should begin this process 12 to 18 months prior to your lease expiration. It can take two years or more to complete the relocation process for large or complex assignments.

## WHOM SHOULD I INVOLVE?

Your internal steering committee should be led by a senior employee, and supported by decision-makers and influencers, including divisional heads and key staff.

A professional real estate advisor is a critical part of the project team, arming you with insight into the marketplace, your alternatives and the financial implications of stay-or-go scenarios. A single point of contact from your organization, matched with a single point of contact at Colliers International, can ensure the process runs smoothly.

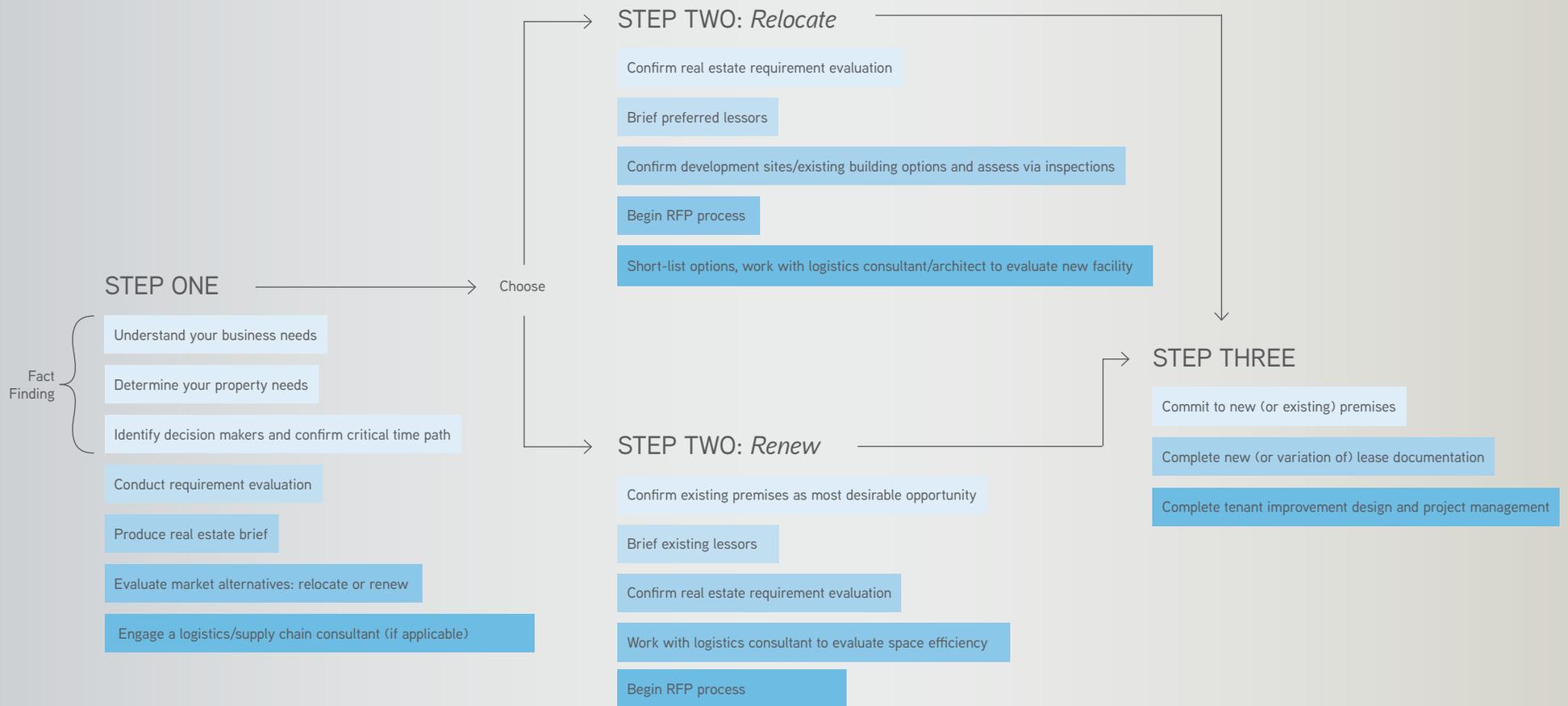
# Top 10

## MOST COMMON MISTAKES MADE BY OCCUPIERS

- > 1 Putting yourself at a disadvantage by beginning renewal or new lease negotiations too late
- > 2 Lacking clearly defined business or real estate objectives
- > 3 Focusing exclusively on financial costs
- > 4 Failing to appoint a project leader as the internal single point of contact
- > 5 Making inaccurate estimations of the company's space requirements
- > 6 Acting too slowly once a decision is made, and consequently missing out on opportunities
- > 7 Agreeing to terms prior to obtaining a logistics consultant
- > 8 Failing to allow for future expansion or contraction
- > 9 Lacking the knowledge of future opportunities; often, the best deals are secured well in advance of space becoming available
- > 10 Failing to leave enough time at the end of the lease to fulfill "make good" obligations, or failing to understand the exact terms of your tenant improvement allowance.

# The Industrial Leasing Process

## THREE STEPS TO BUSINESS PRODUCTIVITY





# Step One

## DETERMINE YOUR PROPERTY NEEDS

### TAKE YOUR REQUIREMENT FROM NOTION TO MOTION

Skipping the planning stage leads to many of the Top 10 mistakes most commonly made by occupiers. It is crucial to understand your property requirements through evaluation and forecasting.

### DETERMINE FUTURE SPACE NEEDS

You should consider medium- to long-range business goals for leases running three years or more. Guided by your real estate advisor, the process of constructing a real estate brief to achieve your business objectives will consider questions including:

- › Is your business growing or shrinking?
- › What are your brand values?
- › What will your facility requirements be in three years?
- › Are you considering acquiring or merging with other firms?

- › What effect will moving have on your customers and staff?
- › How will moving impact logistics and transportation costs?
- › What are the long-term prospects for the quality of your existing labor pool?

By working through this concept planning phase, you will achieve the maximum benefit—both financial and strategic—in the relocation or reconfiguration of your facility. If the workplace design happens solely during the design and construction phase, only minimal gains are possible.

### INVOLVE KEY INTERNAL DECISION-MAKERS

Assemble a team with the breadth of skills to drive the project. Involve your experts in human resources and finance who will be familiar with specific trends that may influence your requirements and decisions. Their involvement from the outset will help clarify and focus your brief and achieve internal buy-in. Collaboration with your plant/facilities



managers, manufacturing engineers, operations manager, etc. will ensure your plan base your plan on the best information.

If you're relocating, the planning stage should include any vendors who supply and maintain your major machinery, so you can factor in the expense of upgrading power, transporting and recalibrating equipment, availability of technicians, etc.

Be sure to appoint a project leader to connect with your internal stakeholders as well as with your broker and consultants.

## CREATE A REAL ESTATE BRIEF

The briefing process begins with the documentation of your workplace requirements.

- › Growth projections
- › Space size
- › Space configuration
- › Specifications and requirements (clear height, power, etc.)
- › Organizational vision
- › Cost parameters

### › Timing

A well-prepared real estate brief will crystalize these elements and translate them into your property requirements. The brief will expedite your decision-making process, and save time by focusing your inspection and review on only suitable properties.

Your brief will also create a framework to evaluate and compare your options. An important element in developing this brief is to audit your existing premises—creating a clear understanding of what's working and what's not.

## WHAT SHOULD BE IN YOUR BRIEF?

Your real estate brief should consider a wide range of criteria:

- › Size of space
- › Size of workforce (maximum and minimum)
- › Image/quality/aesthetics
- › Location
- › Parking (cars and trucks)
- › Clear height
- › Loading Doors

- › Proximity to major highways
- › Office hours
- › Security and access
- › Lease structure preferences
- › Technical requirements
- › Timing
- › Communications infrastructure
- › Budget
- › Environmental considerations
- › Local incentives
- › Other unique needs
- › Term/renewals

Consider constructing a matrix that ranks each factor in terms of importance, as you may have to compromise on some items, depending on the options available. You can also assign a point value to each factor, with more points attributed to the factors with greater importance. Your Colliers professional can guide you through this evaluation process.

## KNOW YOUR LOCAL MARKET AND COMMITMENTS

During this phase, you should familiarize yourself with local market conditions and pricing. By knowing the market vacancy rates, property values, inventory projections, current rental rates and tenant incentives, you will be in a better position to evaluate proposals.

Your Colliers industrial professional can provide you with a market presentation that describes these factors in your local market and in specific sub-markets you identify as most desirable.



# Step Two

EVALUATE MARKET ALTERNATIVES.  
INSPECT AND EVALUATE YOUR OPTIONS.

## RELEASE YOUR BRIEF TO THE MARKET

To avoid dealing with multiple agents, you can request that your Colliers professional approach the market on your behalf. Through market knowledge and a well-established network of agents and owners, Colliers will act as a single point of contact to uncover all suitable space opportunities. Your broker will also assist in discussions with your existing landlord regarding lease renewal options.

## EVALUATE AND PREPARE A SHORT LIST

When analyzing alternative premises, consider timing, financial and other incentives that may be offered. A lease renewal option should include expansion and contraction costs, as well as the cost of reconfiguring or completely

refurbishing your work space. Aim for a short list of three or four properties.

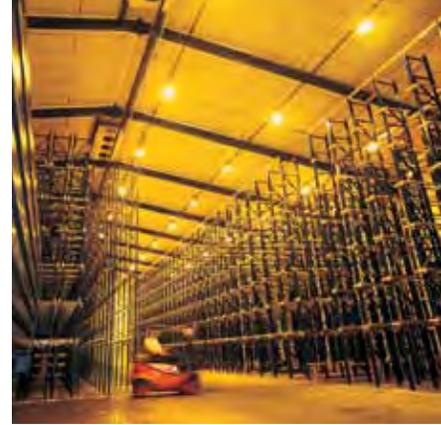
Evaluate options against your brief, ensuring the property's benefits match your stated business objectives. Colliers has developed a range of decision-making models and matrices that dramatically improve efficiency in the evaluation process.

## FINANCIAL ANALYSIS

There are several ways to compare the financial aspects of leasing, including:

- › Gross effective rent per square foot
- › Gross stated rent per square foot
- › Gross and net rent per square foot
- › Total occupancy cost per employee

Further detail on these measurements is provided in the Frequently Asked Questions portion of this guide.



## COMPARE YOUR OPTIONS

When evaluating lease terms, take into account lease incentives (such as free rent or a greater allowance for tenant improvements), the total rent over the life of the lease including rent hikes, and the term of the lease including extension provisions.

Our professionals can help you understand the real estate market cycle, supported by tens of thousands of lease comparables in our proprietary database to give you the edge in negotiations.

## DETERMINE WORK SPACE EFFICIENCIES

By conducting a design site audit of the short-listed options, your architect/space planner, efficiency/logistics experts or other consultants can determine the work space efficiencies for each property. This process also

produces sample tenant improvement designs prior to your agreement on terms, enabling you to compare your options based on financial and non-financial criteria.

Your workplace designer will provide the following services during this critical evaluation phase:

- › Prepare a detailed existing tenant improvement audit
- › Assess items suitable for re-use in the improved plant or facility
- › Manage the pre-design process including a review of local authority approvals and code requirements
- › Prepare selected site audits
- › Prepare a “stacking and blocking” plan
- › Prepare preliminary concept designs

- › Provide an opinion of likely tenant improvement costs

## TENANT IMPROVEMENT COSTS

Attaining a tenant improvement that is aligned with your organization’s ideal outcome depends on which components are viewed as necessary and what is discarded during the design phase. It is critical to assess all aspects included in the tenant improvement to determine their contribution to the overall objectives.

Equally important is the identification and evaluation of the potential components that are excluded. Identifying positive and negative components through the audit process maximizes the effectiveness of the final result and minimizes the cost of the tenant improvement.



# Step Three

COMMIT TO PREMISES



Complete your lease documentation; commence the full design process

## LETTER OF INTENT/RFP

Once the business particulars of a lease agreement are negotiated, both parties will sign a letter of intent. This document is generally not legally binding, but is a gesture of good faith that the basic business points have been agreed upon. When signed, this document will be used to brief attorneys so that the final lease documents can be prepared.

## WORKPLACE DESIGN ISSUES

When a lease agreement is complete, the workplace tenant improvement process begins immediately. At this stage, you should have completed:

- > Needs analysis
- > Space plan
- > Test fit

This will enable you to engage a space planner and your equipment vendor's technicians with accurate information regarding your requirements. The sooner these resources are engaged, the better the outcome.



# Step Four

## DESIGN AND PROJECT MANAGEMENT



The final stage of the process provides the perfect opportunity to re-think workplace/facility imperatives and promote organizational effectiveness, community, communication and productivity.

### DESIGN DEVELOPMENT AND CONSTRUCTION APPROVAL

- › Engage and fully brief all other specialists and consultants
- › Commence detailed design
- › Review likely tenant improvement costs
- › Prepare detailed construction timeline

- › Prepare documentation for building owner and authorities
- › Coordinate stakeholders

### DETAILED DESIGN AND DOCUMENTATION PHASE

- › Prepare documentation for construction bid
- › Obtain building and construction permitting

### BID REVIEW PHASE

- › Determine agreed bid review panel
- › Review and assess bid responses
- › Bid management and analysis

### CONTRACT ADMINISTRATION

- › Manage the delivery process and administer contracts
- › Appoint all approved contractors and suppliers including head tenant improvement contractor
- › Coordinate all required meetings
- › Coordinate quality control inspections
- › Cost and variation management
- › Project manage delivery program
- › Project completion/occupation
- › Oversee practical completion
- › Issue Code of Compliance certificate
- › Inspection and sign-off

- › Manage the identification and completion of all outstanding and defective works
- › Cost reporting and final accounts
- › As-built drawings, operating manuals, guarantees and warranties
- › Final inspection and completion of works at the end of the defects liability period

# Translating the Lingo

## GLOSSARY OF TERMS

### **BUILDING CONSENT**

Approval from the relevant authorities for carrying out building work on the premises, usually for tenant improvements.

### **CAP AND COLLAR**

A term and method used in some market review clauses. It is a mechanism that puts a “cap” or maximum amount by which the rent can be increased, or a “collar,” the maximum the rent can decrease, on the rental rate review date. As industrial leasing markets strengthen, these review methods are more difficult to negotiate.

### **GROSS EFFECTIVE RENT**

The rent payable under the lease, accounting for all incentives and including all building expenses.

### **GROSS FACE RENT**

The rent payable under the lease, excluding any incentives but including all building expenses.

### **LESSEE**

That legal entity, company or person whose name appears as the occupier or user of space on the formal lease document, binding the lessee to the terms and conditions stated therein. Also known as the tenant.

### **LESSOR**

The party whose name appears as lessor on the formal lease document. The lessor is the landlord or owner of the property.

### **MAKE GOOD**

The lessee’s obligation to return the premises to their original condition prior to expiration of the lease.

### **NET RENT, GROSS RENT**

Net rent is only the cost to lease the property. Gross rent is the rental rate including occupier’s share of the operating expenses (e.g., property taxes, insurance, property management). Lease terms such as modified or industrial gross, Net-Net, Triple Net, etc. describe different proportions of operating expenses paid by the tenant.

### **OPERATING EXPENSES**

All secondary expenses other than rent associated with insurance, operation, upkeep and/or maintenance of the building, including air conditioning, elevator maintenance, common area cleaning, security and electricity.

### **RENT REVIEW**

The method by which your rent can vary during the term of the lease. This can be a market rate review, a predetermined figure (such as 3 percent) or a rate fixed to an index such as the CPI. The review structure is agreed upon prior to lease commencement.

### **RESOURCE CONSENT**

Approval from the local governing authority with regard to zoning or changes in the permitted use of the premises.

### **RIGHT OF RENEWAL**

The lessee’s right to renew a lease for an agreed period of time prior to expiration of the initial lease.

### **STATUTORY EXPENSES**

Statutory expenses include costs such as municipal rates, water and sewer rates and usage charges.

### **SUBLEASE/ASSIGNMENT**

The mechanism under the provisions of the lease allowing the lessee to find a suitable replacement tenant. This is subject to lessor approval and unless specifically stated, does not limit your legal responsibilities during the term of the lease.





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# Frequently Asked Questions

## HOW CAN I NEGOTIATE THE BEST DEAL?

By carefully selecting the right properties on your short list, you can create a competitive environment to achieve the most favorable lease agreement. Your Colliers International broker can assist you throughout this process.

## WHAT ARE MY TOTAL REAL ESTATE COSTS?

In addition to your net rental rate, you may also pay for operating costs such as insurance, building and grounds maintenance, taxes, utilities, and other expenses incurred by the landlord.

## WHAT ARE THE DIFFERENCES BETWEEN GROSS RENT, NET RENT, EFFECTIVE RENT AND FACE RENT?

GROSS RENT is the rent calculated inclusive of all building costs, whereas NET RENT is the rent calculated excluding building costs. FACE RENT is the quoted rental rate before taking into account incentives or increases, whereas EFFECTIVE RENT is the rental rate averaged out over the term of the lease, including consideration of rent-free periods or up-front incentives.

## WILL I BE ABLE TO SUBLEASE OR ASSIGN MY LEASE?

Most commercial leases allow the lessee to sublease or assign their premises. Typically, the lessor is unable to unreasonably withhold consent to the sublease/assignment. A prudent lessor will consider the strength of the contract being offered by the incoming tenant and will be reluctant to accept a sublease/assignment if it could potentially compromise their financial position or security.

## WHAT ARE THE RENT REVIEW PATTERNS FOR THE TERM AS WELL AS THE RENEWAL PERIOD?

Most lessors have a standardized lease document for their buildings, including a prearranged rental review schedule in light of the lessor's own objectives and current market conditions.

Lessees will typically request a right of renewal as part of the lease negotiation, allowing them to extend their occupation beyond the initial lease term. It is normal to set out the rent review pattern for this term in the original lease document.

## WHAT IS A "MAKE GOOD" AND HOW MUCH WILL IT COST?

A "Make Good" is your (the lessee's) obligation to return the premises to its original state upon completion of your lease, usually excepting fair wear and tear to premises.

## HOW MUCH WILL MY TENANT IMPROVEMENT COST?

This depends on the quality of tenant improvements you require. Factors in the cost include the existing tenant improvements from the prior tenant, the quality of finishes selected, infrastructure needs such as plumbing and wiring, and the complexity of the requested build-out. Typically, landlords provide a tenant improvement allowance and tenants are expected to pay the difference between that allowance and the actual cost of improvements.



# Relocation Checklist

## A STEP-BY-STEP GUIDE

### PRELIMINARY

- Finalize lease for new location
- Notify present landlord of termination date
- Advise staff of date and location of move
- Engage a logistics/supply chain consultant (if applicable)
- Create a master change-of-address list
- Environmental impact review?

### PRE-MOVE—GENERAL

- Bid and award moving contract
- Bid and award telephone and computer cabling
- Inventory existing assets, including furniture, equipment
- Code furniture and equipment on a color-coded floor plan
- Audit keys
- Order any new office furniture and equipment
- Order new stationery
- File change-of-address forms with post office and forward mail
- Check your insurance coverage for the move
- Obtain the Certificate of Occupancy and any other required permits or licenses
- Advise suppliers
- Decide on security procedures for the move

- Mail moving notices
  - Banks and financial institutions
  - Clients and customers
  - Professional organizations
  - Credit accounts and credit cards
  - Insurance companies
  - Accounts receivable and payable
  - Newspaper and magazine subscriptions
  - Telephone company and internet service provider
  - Prospects and special services
- Hold a meeting at new premises three weeks prior to move. Bring in all parties involved (equipment vendors & technicians, design/construction/mover/cabling company/information technology specialist) to ensure all details are covered and all responsibilities clear
- Change locks/access codes on new premises as close to moving day as possible to secure access
- Schedule public relations effort, including plans for news releases
- Arrange for signage at new facility
- Arrange for post-move cleaning

### PRE-MOVE—INTERNAL

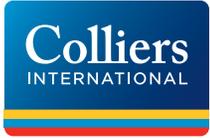
- Organize a “staff moving committee” if appropriate and delegate responsibilities
- Schedule and prepare agenda for your employee move orientation meeting
- Develop a master relocation project schedule
- Schedule and implement a clean-up program (purge files, dispose of trash)
- Schedule staff for unpacking, including stocking supply cabinets, storerooms, file rooms, to ensure your company will be operational as rapidly as possible after move
- Arrange for staff to tour new premises a few weeks prior to move
- Schedule post-move training for security, fire, and life safety procedures at the new facility
- Distribute access cards and keys for new premises

### MOVING DAY

- Remove computer equipment (server) and phone system prior to arrival of movers and commence reinstallation at new site
- Draft an emergency contact list for vendors such as elevator maintenance, building management, utilities, telecommunications and moving company

### POST-MOVE

- Install and test telephone system
- Distribute new phone list
- Do a detailed walk-through of the premises and report any damage to moving company
- Run benchmark tests and calibration of major equipment
- Transfer your insurance to the new location
- Obtain Certificates of Insurance from your insurance company
- Confirm termination of old leases
- Collect parking passes, security cards and keys for the old facility. Confirm the return of any deposits held by the landlord for these items.
- Audit final invoices against contracts
- Complete and file all warranty information for all new furniture and equipment
- Update fixed asset accounting system for any new furniture and equipment purchased
- Confirm the change-of-address corrections made
- Schedule press release and client announcement



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