ITRA® International Tenant Representative Alliance

Issue XXVI

Real Estate Strategies

Commercial Real Estate Group of Tucson LLC

It's A Tenant's Market: Take Advantage!

Tens of thousands of businesses can significantly reduce their office rents right now.

This is not a government program, so please don't call them.

To be eligible, you have to be:

1. A tenant in good standing
2. Creditworthy
3. Have a lease that terminates in the next two to three years
4. Be willing to take advantage of a tenant's market to trim overhead

Michael Coretz

Since landlords are under pressure to keep their buildings filled with quality tenants, it is possible to approach the landlord, and in exchange for extending your lease, you may be able to obtain lower rent, a rent concession, work space improvements, better lease clauses, a new tax base and more.

How?

Convince the landlord you are serious about leaving.

Nothing says "I really can move to another building" more effectively than retaining a tenant representative who knows how to take advantage of current market conditions.

A tenant rep will analyze your existing lease, while lining up competitive space offers in other buildings. This positions you and your tenant rep to approach your present landlord with negotiating leverage.

When your landlord realizes you and your tenant rep have done your homework, and sees the competing offers, chances are, they'll be quick to make you an offer you can't refuse.

For Tenants, It's a Great Time To Negotiate Better Lease Terms

By Lawrence Dickstein
President & CEO
ITRA / Dickstein Real Estate Services, Bridgewater, NJ

Good news! Now is the best time in the last 20 years to be a tenant. The commercial real estate market is a slow motion train wreck—and the landlords see it coming.

Landlords also see the downward pressure on their tenants. It is no secret that tenants continue to face dwindling markets, stock prices crashing and their business horizons in doubt!

Many industry experts wonder if the commercial market is due for a crash. While few predict a downturn of the magnitude of the recent debacle in residential real estate, the pain for many landlords already is real and there is no better time to try to:

- Negotiate better lease terms for your present lease
- Upgrade to better quality space by moving to another building
- Reduce or expand your space at advantageous terms

Bank Crisis Impacts R.E.

The banking crisis already is having its effects on those landlords who have reached the "reset" on their non-amortizing balloon commercial mortgages, which must be renegotiated every few years to market rates. This impacts tenants in affected properties with diminishing rent rolls.

While interest rates are relatively low, based on historic standards, the qualifications to refinance the mortgage may increase. Recessionary pressures on businesses have led landlords to reduce their effective rents. These lower rent rolls may result in some landlords being unable to qualify to refinance their existing mortgages. This unanticipated "cash call" may have some of the weaker landlords scrambling for capital at a time they can least afford it.

The caveat is that opportunities in this economy may vary from market to market and building to building.

Some landlords—generally those with stronger portfolios—are better positioned to do what it takes to keep tenants. They

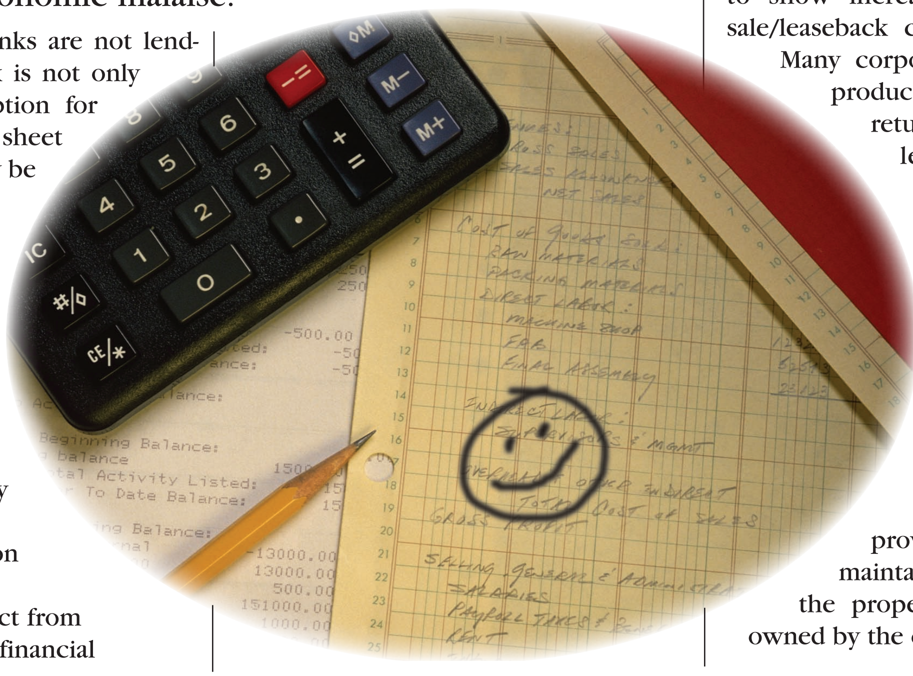
Continued on page 5

Sale/Leasebacks:

Financing a Healthier Balance Sheet

BY RONALD R. POLLINA, PH.D.
PRESIDENT
ITRA / POLLINA CORPORATE REAL ESTATE, CHICAGO, IL, USA

IF YOUR COMPANY HAS A GOOD CREDIT RATING, OWNS AND occupies its office or industrial properties, it may benefit from a sale/leaseback transaction especially because of the current global economic malaise.



At a time when banks are not lending, the sale/leaseback is not only the most efficient option for improving the balance sheet and raising cash, it may be the only option.

A sale/leaseback transaction allows you to:

- Reinvest in your business
- Retire debt
- Improve credit rating
- Increase productivity
- Make an acquisition
- Get a better return on capital investment
- Avoid negative impact from depreciation on the financial statement

Thus the sale/leaseback solution allows your company to sell its property and get it off the books while avoiding the costs and disruption of moving. And the long term lease keeps your occupancy costs under control.

> *Over the years, sale/leasebacks have helped many companies achieve liquidity, especially in times where credit is tight and cash is scarce.*

Of course, there's nothing really new or exciting about a sale/leaseback. They've been around for decades. So if you like things that are predictable and boring and don't blow up, read on!

Over the years, sale/leasebacks have helped many companies achieve liquidity, especially in times where credit is tight and cash is scarce. Another benefit is that it takes a company out of the real estate business, which for many firms is a distraction, and allows greater focus on the core business area.

So the next question should be, "who in these cash starved times would buy a building and lease it back to a credit worthy tenant?"

The target buyers in a sale/leaseback transaction are pension funds, insurance companies and other investment groups. These institutions have a longer investment horizon than many investors. They have cash and want a high grade, safe investment. They will accept a lower ROI (return-on-investment) in return for a low risk investment. The company's lease provides the buyer steady cash flow, and the long term appreciation of the property provides them a hedge against inflation.

Why Corporations Do Sale/Leasebacks

One of the critical questions for the corporation to ask is, does the rent paid, plus the loss of depreciation and residual value, outweigh the advantages of receiving the net cash proceeds from the sale? If a company wishes to show increased productivity, the sale/leaseback could be very helpful.

Many corporations measure their productivity by calculating a return on assets. A sale/leaseback transaction may allow the corporation to reduce the assets shown on their balance sheet. The corporation's rate of return (earnings divided by assets), increases if the denominator (the assets), decline.

Sale/leasebacks also provide an opportunity to maintain operating control of the property as if it were still owned by the corporation.

What Buyers Look For

Buyers have three principal goals:

1. Secure cash flow through rent from the leasing corporation
2. Take advantage of any property ownership tax benefits
3. Long term property appreciation

The stronger the credit of the seller/lessee and the better the property, the more negotiating leverage the seller/lessee has. Part of your ITRA broker's responsibility is to find the correct buyer based on the property and the seller's credit.

Buyer/lessors want properties with strong residual value potential—that is, a wide range of appeal to many corporate type users and located on very marketable sites. Preference is given to free-standing, single-user office, ware-

Continued on page 5

ITRA Success Story:

2 Companies With 2 Different Needs Relocate North America HQ's Together

Two sister technology companies with different space requirements based in two separate buildings sought to place their respective North American headquarters under the same roof, in adjoining space on the same floor. This was the challenge successfully met by Stuart Holcombe, CCIM, Principal of ITRA/Corporate Real Estate Advisors in Atlanta.

Mr. Holcombe represented **Stibo Systems** (**www.stibosystems.com**) a leading global provider of product information management (PIM) and master data management (MDM) solutions, and **CCI Europe** (**CCI**) (**www.ccieurope.com**), which develops and supplies cross-media solutions in partnerships with newspaper publishers.

Working closely with **Stibo** President Andreas Lorenzen, and Carsten Boe Jensen, the President of **CCI**, US, Mr. Holcombe located space that fit each company's needs, enabling them to share common resources. Each could still maintain their separate identities, separate leases, and separate reception areas in their separate spaces.

Their space requirements were quite different:

- **Stibo** previously had 8555 rentable square feet (RSF) in a Class B+ property but wanted to expand to approximately 13,000 RSF in a Class A property.
- **CCI** had 8274 RSF, but would not move unless they could find a lease agreement with better terms. Their new, more efficiently designed Class A space accommodated their requirements with only 7196 RSF at a lower rental rate.

ITRA's Mr. Holcombe leveraged his block negotiating power with the landlord, obtaining for both tenants higher tenant improvement finishes, significant rental savings and no escalations on the rate for four years on a five-year term. By placing the escalations in the final year of the lease, the companies' base rent will have a lower reset at the end of the lease—another huge savings.

"Stuart Holcombe not only used his negotiating skill to save our company money up front, but far down the road as well," says **Stibo** President Andreas Lorenzen. "The needs of both **Stibo** and **CCI** were met individually and together while we also upgraded our space, thanks to his dedicated efforts."

The ITRA® Advantage Global *Services*

Office, Industrial and Retail Facilities

- Regional, National, International Headquarters
- Research & Development
- Life Sciences
- Warehouse / Distribution
- Manufacturing

Real Estate Market Analysis

- Acquisitions
- Dispositions
- Lease Renewals

Negotiations

- Proposals
- Leases
- Dispositions
- Acquisition Contracts
- State & Local Incentives
- Sale / Leasebacks
- Work Letters
- Operating Expense & Taxes Audits
- Architectural Engineering Contracts
- Developer Agreements

State & Local Incentive Negotiations

- Statutory and Negotiated Incentives
- Cash Grants
- Infrastructure
- Tax credits and Abatements
- Workforce Grants and Training
- Subsidized Land and Building Costs

Lease Management

- Lease Abstracting
- Financial Reports
- Tax & Operating Expenses

Strategic Planning

- Model Development
- Acquisition/Consolidation Analysis
- Policies & Procedures Manuals
- Space Planning

Location Analysis

- Labor Market Analysis
- Transportation Costs
- Utility Costs & Availability
- Quality of Life
- Taxation
- Market Accessibility

Financial Analysis

- Buy vs. Lease
- Build-to-Suit
- Equity Participation
- Sale / Leasebacks

Surplus Property Analysis

- Marketability
- Highest & Best Use
- Disposition Strategies

Project Management

- Needs Assessment
- Project Budget Management
- Selection and Oversight of Design Team, Contractors and Vendors
- Move Coordination

ITRA® Global Office Markets Survey

North America

Second Quarter 2009

	CITY	TOTAL SQUARE FEET	VACANCY	AVAILABLE SPACE	AVERAGE RENT
1	Atlanta	226.4M	16.0%	36.7M	$20.47
2	Austin	42.2M	17.6%	7.4M	$26.04
3	Baltimore	97.6M	13.0%	12.7M	$22.24
4	Boston	76.2M	9.2%	7.0M	$37.98
5	Charlotte	62.5M	13.6%	8.5M	$20.55
6	Chicago	306.0M	18.6%	56.9M	$25.00
7	Colorado Springs	27.3M	17.0%	4.6M	$19.15
8	Dallas	196.8M	22.0%	54.1M	$18.98
9	Denver/Boulder	142.3M	20.1%	28.6M	$21.57
10	Fairfield County, CT	48.5M	11.0%	10.2M	$31.85
11	Ft. Lauderdale/W. Palm Beach	89.4M	18.0%	18.5M	$24.80
12	Houston	214.3M	14.3%	30.7M	$23.85
13	Las Vegas	48.4M	19.0%	9.4M	$24.69
14	Long Island	102M	10.0%	10.1M	$27.64
15	Los Angeles	420M	11.0%	45.0M	$30.48
16	Miami	44.2M	15.0%	7.7M	$28.64
17	Minneapolis	128.7M	10.6%	13.6M	$16.67
18	Nashville	29.9M	11.2%	3.7M	$19.27
19	New Jersey	259.5M	19.0%	51.1M	$25.64
20	New York City - Downtown	158.0M	10.0%	35.0M	$45.08
21	New York City - Midtown	349.0M	14.0%	49.5M	$54.75
22	Norfolk	35.4M	11.0%	5.3M	$18.99
23	Orange County, CA	122.9M	15.9%	19.5M	$27.15
24	Orlando	64.4M	14.9%	9.6M	$23.99
25	Philadelphia	94.5M	18.0%	17.4M	$26.05
26	Phoenix	128.8M	22.6%	34.0M	$25.06
27	Pittsburgh	95.9M	11.3%	10.8M	$18.81
28	Portland	66.6M	12.0%	10.1M	$21.17
29	Richmond	56.9M	10.5%	6.0M	$17.14
30	Salt Lake City	65.3M	9.8%	9.8M	$17.54
31	San Diego	81.5M	18.4%	15.0M	$30.18
32	San Francisco	90.2M	13.4%	12.1M	$29.64
33	San Juan, PR	15.1M	18.8%	2.8M	$27.80
34	Seattle	136.3M	12.2%	16.6M	$27.58
35	Silicon Valley	88.2M	16.1%	14.0M	$29.40
36	Spokane	16.9M	10.4%	1.8M	$16.50
37	St. Louis	87.5M	12.2%	10.7M	$19.01
38	Tampa	43.2M	17.0%	8.3M	$25.02
39	Tucson	16.5M	13.0%	2.3M	$20.09
40	Washington, D.C. Metro	436.3M	12.8%	55.8M	D.C.: $47.15/Metro: $33.31
41	Westchester County, NY	35.5M	12.5%	6.4M	$29.02

London

Second Quarter 2009

	DISTRICTS	TAKE UP	GRADE A VACANCY	PRIME YIELD	PRIME RENT
42	London (WE) CBD	0.7 million sq ft	7.4%	5.50%	£80.00 per sq ft
43	City	0.7 million sq ft	10.0%	6.75%	£43.00 per sq ft
44	Docklands	0.38 million sq ft	6.1%	N/A	£35.00 per sq ft

"Take Up" – Space absorbed in the previous quarter / "Grade A Vacancy" – Available Space / "GBP" – British Pounds

Disclaimer: This survey contains information from sources deemed to be reliable and accurate. However, we make no representation, warranty or guaranty of its accuracy.

Asia

Second Quarter 2009

	CITY/COUNTRY	Total Stock (Sq. Ft.) Class A Space	Average Rent (US$/Sq.Ft./Year)	Change of Average Rent from Prior Year
45	Bangalore, India	32M	$34.46	101%
46	Mumbai, India - Nariman Point	23.5M	$131	-21%
47	New Delhi, India - CBD	33.2M	$86.94	-37%
48	Beijing, China - CBD	148M	$49	9.80%
49	Hong Kong, China	49M	$85	-4%
50	Shanghai, China - Pudong	38.4M	$65.22	5.50%
51	Tokyo, Japan	661M	$164.99	46%
52	Taipei, Taiwan	17.3M	$42	49%
53	Seoul, South Korea	69.1M	$54.18	27%
54	Singapore, Singapore	46.1M	$82.79	-29.80%
55	Jakarta, Indonesia	38.7M	$13.16	9.50%

Australia

Second Quarter 2009

	CITY/COUNTRY	Total Stock (Sq. Ft.) Class A Space	Average Rent (US$/Sq.Ft./Year)	Change of Average Rent from Prior Year
56	Melbourne, Australia - CDB	39.6M	$27.73	-53%
57	Sydney, Australia	51.1M	$42.35	-14%

Latin America

Second Quarter 2009

	CITY/COUNTRY	Total Stock (Sq. Ft.) Class A Space	Average Rent (US$/Sq.Ft./Year)	Change of Average Rent from Prior Year
58	Sao Paulo, Brazil	24M	$57.74	10%

It's a Great Time to Negotiate Better Lease Terms *Continued from page 1*

will negotiate lower rentals, escalations, new construction allowances, free rent, lease extensions and space reductions to encourage early renewals. This is where exclusive ITRA tenant representatives, who never represent landlords, can use their unconflicted, objective market knowledge to negotiate better terms for office tenants. Here are a few examples of what ITRA offices across North America are negotiating on behalf of tenants:

ITRA's Andrew Stein and Bert Rosenblatt have just completed a renewal of lease for a client in Manhattan. Negotiations started off 12 months ago at $73 per square foot, which at the time was $7 per square foot less than the asking price. As negotiations progressed, the landlord got more and more aggressive. Now 12 months later the transaction has just closed at a $53 per square foot rent for 15 years with the tenant securing 4 months free rent and even securing exterior signage on the building, a rare and valuable asset in NYC.

> *Only an experienced tenant representative can understand the rate of change and how it can be used to the benefit of office tenants.*

On the West Coast, Mark Rosen, ITRA San Francisco, reports that landlords in his market are literally tripping all over themselves to compete for credit tenants. Mr. Rosen started a search for a client for new space in the Downtown CBD many months ago and received a proposal for full floor of 15,000 square feet in a Class A building at around $40 per square foot.

By advising his client to wait, Mr. Rosen was able to revisit the same property six months later, securing a letter of intent from the landlord for $29 per square foot for the same space.

This is not all.

Mr. Rosen also was able to secure a bundle of incentives that included the use of a 1,200 square foot storage and work shop thrown in the deal for free, 2 months free rent, a turnkey construction allowance valued at $25 per square foot, expansion rights, and even an option to reduce the amount of space early if the tenant's needs change during the lease term.

Ross Selinger of ITRA Long Island had to take a more aggressive approach to secure a reduced rent for one of his clients. Selinger was able to negotiate a reduction in rent from $36 per square foot to $26 per square foot. His strategy was to survey the market with his tenant, forcing the Landlord to compete.

Only an experienced tenant representative who is out there every day can understand the rate of change and exactly how it can be used to the benefit of office tenants. At ITRA, exclusive tenant representation is not just our business, it's our *only* business.

ITRA Expands in New York City

ITRA has expanded in the New York City market with the addition of ITRA/Vicus Partners, which will serve the Manhattan Downtown market (below 14th Street).

The principals of ITRA/Vicus Partners are Bertram Rosenblatt and Andrew Stein, who have combined to lease more than a million square feet of space to an impressive roster of law firms, non-profits, hospitals and assorted private sector businesses. Clients represented include The Children's Defense Fund, a division of General Electric, the New York Convention and Visitors Bureau, The Breeder's Cup and Carnegie Mellon University.

ITRA/Vicus Partners may be reached by phone at +1 212.880.3747, or by email at brosenblatt@itraglobal.com, or astein@itraglobal.com.

Financing a Healthier Balance Sheet *Continued from page 2*

house/distribution, or manufacturing facilities. Certain sale/leaseback property buyers will consider build-to-suits.

Economic Considerations

Lease terms typically range from 10-15 years. Most buyers prefer leases increases in the rent ranging from two to four percent annually. Most sale/leaseback transactions are for single-user buildings, buyers prefer pure triple-net leases.

Transactions are typically based on then existing market capitalization rates. While market cap rates may vary slightly at any time, the cap rate for a specific transaction will depend on the size of the property, the type of property, the location, and the financial strength of the tenant.

While many terms and conditions are negotiable, little flexibility may be found in meeting all the Financial Accounting Standards Board ("FASB") requirements to qualify as a sale/leaseback. The further that either purchase price or rent gets from market reality, the greater will be the chance that the transaction will not meet generally accepted FASB principles as a sale/leaseback transaction and it instead will be treated as a capital lease.

Because the seller/lessee will be entering into a long-term lease, it is essential that the assistance of a knowledgeable ITRA real estate negotiator be utilized for the negotiation of both the purchase contract and the lease. Negotiators on both sides must be intimately familiar with the unique accounting requirements of a sale/leaseback transaction, and the complexities of sale/leaseback agreements.

Global Offices

NORTH AMERICA
Asheville
Atlanta
Austin
Boca Raton
Boston
Boulder
Chicago
Colorado Springs
Dallas
Denver
Fairfield County
Ft. Lauderdale
Long Island
Los Angeles
Miami
Minneapolis
Naples
Nashville
New York City
Norfolk
Northern New Jersey
Northern Virginia
Orange County, CA
Palm Beach
Philadelphia
Phoenix
Pittsburgh
Portland
Richmond
San Diego
San Francisco
Silicon Valley
Spokane
Suburban Maryland
Tampa
Toronto
Tucson
Washington D.C.
Westchester County

LATIN AMERICA
Bogota
Buenos Aires
Caracas
Curitiba
Lima
Mexico City
Monterrey
Ponce
San Jose
San Juan
Santo Domingo
Sao Paulo

EUROPE
Amsterdam
Athens
Berlin
Brussels
Dublin
Frankfurt
Istanbul
London
Madrid
Paris

ASIA/ PACIFIC RIM
Bangalore
Beijing
Brisbane
Chengdu
Chongqin
Hanggzhou
Hong Kong
Manila
Melbourne
Mumbai
New Delhi
Perth
Seoul
Shanghai
Suzhou
Singapore
Sydney
Tokyo
Wuxi

Inside

ITRA® | International Tenant Representative Alliance

Issue XXVI

Real Estate Strategies

Commercial Real Estate Group of Tucson LLC

4525 E. Skyline, Suite 113
Tucson, AZ 85718
phone +1 (520) 299-3400
mcoretz@itraglobal.com
www.itraglobal.com

ITRA provides corporate real estate services for tenants and buyers throughout the world.