

Value: Preservation vs. Creation

Opportunities to capitalize on market conditions and lock in benefits by challenging and changing real estate situations can be squandered by over-reliance on an “*If it ain’t broke, don’t fix it*” mentality. In business, as in life, human nature compels us to put out fires, or preserve value, before challenging more stable elements of a given situation, or creating value. However, when we resolve to focus attention first on areas that have the highest potential for the highest rewards at acceptable levels of risk, new opportunities and new priorities become apparent and promote our successful creation of value.

Very often, a real estate situation is considered “acceptable” and passed over for further review if leases don’t expire or require renewal for a few years, if space basically “works” operationally, if areas leased are at least 80% efficient, and if rental rates can be justified by market conditions that existed when a lease was originally negotiated. That same situation should not be ignored or be tolerated in light of current market conditions that make it possible for leases to be restructured to create value in the form of:

- lower rental rates;
- landlord financed tenant improvements;
- free rent;
- enhanced building services;
- improvements that address power, technology, and security requirements;
- more flexible lease terms to accommodate subleasing, growth or contraction, and investorexit strategies;
- disposition of excess space;
- decreased operating expense and tax rents;
- other benefits

In today’s commercial real estate market, executives and real estate decision-makers in organizations that lease office, laboratory, industrial, flex, and distribution space have a lot to gain by challenging their seemingly acceptable real estate solutions to be better today and tomorrow. Why? Because lease restructures are win-win propositions that provide rewards for making change while creating sufficient financial benefit for both

tenants and landlords to share in a negotiated solution. Restructures are paper transactions that eliminate a tenant's risk of relocation and business interruption while providing landlords with clout, in the form of stabilized rent roles, for capitalizing on low financing rates and the ability to further leverage their portfolios.

Don't be misled. Lease restructures are never "off-the-rack" solutions. Whether your organization is a candidate for a lease restructure depends on three main variables – your organization's present status and business objectives, your existing real estate situation, and current market conditions. Currently, market conditions provide an excellent backdrop for restructure transactions. Proactive, competitive organizations will find it beneficial to work with a real estate advisor experienced in restructuring leases to determine whether their business objectives and their existing real estate situations can capitalize on lease restructures or other opportunities.

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