

# Case Study

## **A LEASING DILEMMA:**

A large Connecticut law firm had approximately 20,000 sf office space above the 30th floor of City Place in Hartford, Connecticut's Highest Building.

The law firm's lease had 3 remaining years at a rental rate much higher than the market. They had signed the lease in a period when the market rental rate for office space was much higher. They wanted "relief," so they asked their Landlord for a proposal to renew early. The Landlord proposed a renewal (3 years early) with a 9 year total term with a "stepped" rent starting at \$28.00 per rentable sf "gross" (includes \$12.90 /rsf in taxes and operating expenses) and escalating to \$33.00/ rsf, a weighted average of \$30.93/rsf. A tenant improvement allowance of \$10.00 prsf was included. Perhaps of greatest importance, they wanted the partners of the whole law firm to maintain their personal financial liability until the end of the new term of the lease.

## **THE STRUCTURE:**

We anticipated a contentious negotiation with the Landlord, so we declined a fee from them so that our fiduciary responsibility was clearly aligned with the Tenant. We negotiated a fee paid by the Tenant that was a percentage of the aggregate amount saved if they stayed. If they moved we would get a traditional commission from the new Landlord.

## **THE NEGOTIATION:**

For many months, the landlord barely budged from the original proposal. Therefore, we provided the Tenant with a full assessment of the Downtown Hartford Office Market and toured most of the buildings with available spaces that were appropriate for them. Our "team" consisted of the Managing Partner of the law firm (located in another major city), the Managing Partner of the Hartford office, the Office Manger, and a Hartford partner who specialized in commercial real estate. We also worked with other professionals, such as the firm's accountant (estimating the tax impact of the lease term, depreciation of tenant improvement, furniture, etc.) and an architect (who helped analyze the relative efficiency of the different buildings, design the interior layout, finishes, and furniture, etc.). A Letter of Intent was signed with another building, and they were a few days away from executing the final lease and planning their relocation to another high-rise building.

At this late date I received a call from the Landlord of CityPlace saying they had an "improved proposal" for us, and asked if it was too late to keep the Tenant. It was the call the law firm was hoping for, since moving one's office is never "fun."

## **HAPPY ENDING:**

Ultimately new terms started at a rental rate of \$26.00 /rsf and escalating to \$30.00 /rsf, which averages \$27.72 /rsf. This is a reduction of \$3.21 /rsf on 20,000 sf. An additional \$5 /rsf was negotiated for Tenant Improvement Allowance (\$100,000).

In the final analysis, we saved them over \$600,000 of a \$4.5 million lease, or over 12% of the firm's largest expense after personnel. Virtually all of the savings enhances the partners' profitability. The 60-page lease included many other issues that were negotiated of both financial and non-financial value. We also negotiated the complicated formula for the partners' liability to eventually decline it to zero.

## **MORAL:**

Even if a tenant or buyer has contacted the other party directly, an experienced commercial real estate professional can save people time and money and improve many other terms inherent in a real estate transaction.