

HOW TO NEGOTIATE THE BEST LEASE: TENANT IMPROVEMENT ALLOWANCE

Department stores offer discounts to draw shoppers in. Restaurants offer happy hour deals to draw consumers in. Incentives are constantly around us. Especially in a soft market, Landlords also offer incentives to prospective tenants. One of the most pursued and highly sought after of these incentives is the...tenant improvement allowance.

What's included in a tenant improvement allowance? Well, commercial lease agreements are unique to the situation and to the property, but most leases with a tenant improvement allowance clause include, but are not limited to, costs for replacing flooring, drywall, doors, windows, paint, lighting, cabinetry, and other infrastructure costs. Tenants should come to the negotiation table with an accurate forecast of the planned renovation. Otherwise, they should expect a TI allowance of \$10 to \$20 per square foot. Your ability to negotiate the terms of a tenant improvement allowance is dependent on multiple factors including the condition of the space, position of the landlord, and the real estate market conditions.

Condition of the Space:

If the commercial space itself is deemed to be non-competitive in the market, landlords will be more willing to provide greater allowances for tenant improvements in order to compensate for the condition of the space. Depending on the severity of the conditions, landlords may significantly increase the amount of tenant improvement allowances within the lease.

Position of the Landlord:

Meanwhile, economic factors always have an impact on tenant improvements allowances. So larger landlords will be much more willing to provide...a bigger chunk of change for upgrades when compared to smaller businesses.

Real Estate Market Conditions:

Lastly, if the market conditions lean towards a seller, the less likely you will see a considerable amount allocated toward tenant improvement allowances. Commercial real estate landlords tend to keep their terms typically in line with current market conditions within your targeted area.

TI Allowances (Tenant Control vs Landlord Control)

Depending on the scale of the build-out, tenants should look to exercise a greater amount of

control over the construction process. This equals more work, but it allows tenants to provide their own chosen contractor and therefore oversee fine details of the project. On the other hand, if the landlord wants to keep a certain level of control over the project, tenants may have the option to limit the landlord's involvement in the project. In addition, when the landlord takes complete control of the construction process and delivers the completed space to the tenant, this is referred to as a "turnkey build out." In some cases, especially when the project is larger, tenants will want to oversee the construction themselves. This means a bigger workload for tenants as they may be more in control of timing and can prevent holdover fees from the space they are vacating. Some tenants and landlords negotiate a compromise whereby each has some control of the process.



In Summary:

The TI allowance is an outstanding benefit, and tenants should enter negotiations prepared to negotiate hard for it. A tentative tenant may consider the TI allowance a big concession from the Landlord, and therefore feel less inclined to make demands. With the attitude that TI allowances are rightfully theirs, tenants can negotiate aggressively (but always amicably) to secure the best terms for this valuable incentive. SCGWest is here to help guide you through the process as experts in the industry!