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Using a Commercial Broker

A Guide To Tenant Representation

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The Pros and Cons of Using a Commercial Real Estate Broker

Everyone wants to save a buck, and if hard work and perseverance can knock a few thousand off the cost of a real estate deal, many of us are inclined to go it alone. But is it worth it to sift through many listings in the target area and suit up for aggressive negotiations without using a commercial real estate broker? This guide examines the pros and cons of finding your own office space versus using a broker's expertise.

Potential Cost Savings

Unwillingness to pay the broker commission is one of the top reasons that companies choose to forego using a tenant agent. Yet businesses seldom have to pay out-of-pocket for this commission. The landlord budgets a commission for the listing agent, which is split with the tenant broker upon completion of the lease. The split is most often 50/50 with the listing agent. In general, the broker's commission costs the company nothing.

Other cost savings are gleaned by virtue of the broker's market knowledge, access to privileged information, and skill and experience at negotiations. A business owner could successfully navigate the process, but might miss important market information a broker could supply that would maximize profits as the business expands. He or she might not recognize potential negotiation items that would save them hundreds or thousands of dollars over the course of the lease. Having an agent that represents your interests could translate into money in your company's pocket.

Who is Watching Your Back?

Listing agents are duty-bound to protect the landlord's interests. If company managers only works with listing agents, they must rely on their own wits to protect the company's interests. This creates a decided disadvantage at the negotiations table, as only the landlord is represented by professionals familiar with the process.

A tenant agent will work for your company's interests at every stage of the process. They can more disinterestedly search for properties listed with many brokerages, and can take into account your company's situation and needs, rather than working to fill a building at the best price for the landlord.

Working only with listing agents might also limit the properties you are shown. They will be motivated to steer you to their own agency's properties in order to receive the maximum commission (especially since you were thoughtful enough not to bring an agent with whom to share it). On the other hand, tenant brokers also have motivation to steer their clients to those properties where the commission is highest for them—remember that there are some buildings where the commission split is not 50/50.

The Value of Time

Without a broker, the list of properties available and their favorability with respect to your business's best market location can seem overwhelming. The broker brings experience and a solid understanding of markets in your metropolitan area, and can help winnow out office space that is not ideal for what you do.

In addition to avoiding the heavy investment of time just to find the property, time savings can be realized as the deal progresses, in organizing inspections, negotiating and re-negotiating terms, completing plenty of paperwork, and making offers. Because the broker has experience and connections, the search for a property, as well as the completion of all the contingent steps to signing the lease can be streamlined.

There is a con to the time element of using a commercial real estate broker. Your agent does not get paid until the deal is signed. This may motivate him or her to rush the process along, without giving full consideration to your company's needs. Tenants will need to be aware of this fact in order to insist on moving the deal along at the speed that is best for their businesses.

Commercial Real Estate Market Knowledge Provides an Edge

Real estate brokerages pride themselves on knowing the local market, and can help companies find the most potentially profitable spots for their specific kind of business. An upscale clothing retail company might better be able to pinpoint locations where their kind of merchandise is sought, and tap into broker's data on foot traffic and retail sales in certain areas.

Brokers often know right off the bat which buildings are available, plus any restrictions, zoning, and proposed development the company owner might not be aware of. They are familiar with areas, trends, and even local business owners and landlords—all information providing an edge to the client in his or her search for office space.

Brokerages also spend thousands for proprietary reports on market data on sales and leasing, including traffic counts, demographics, and comparable leases and sales. They often are privy to offers not available to the public, like office space set to be made available.

Commercial Real Estate Negotiations



Successful negotiation can be stressful. A commercial real estate broker negotiates for a living, and can provide a buffer between the sometimes rocky process and the client. Negotiations can be complex, and it is helpful to have an advocate on your side that can spot hidden charges or profit centers for the landlord.

Leases are legal documents, which no one likes to read—they are confusing and full of jargon that often obscures meaning. A good broker can read and interpret these legal documents, and help negotiate lease clauses that could be harmful to the client.

On the con side, brokers have an internal financial motivation for your lease to be more expensive and your lease term longer, as their commission will improve as the total lease amount increases. This creates a conflict of interest for your broker, who is duty-bound to protect your interests, and higher rent is not among them.

To Commercial Real Estate Broker or not to Broker?

Having an experienced advocate in the commercial leasing arena can only be in a company's favor, however tenants must be aware of and vigilant about the inherent conflicts of interests in the process. While the broker brings a great deal to the table, he or she also has powerful market motivations to 1) steer you to properties where the commission is better, 2) rush you through the process, and 3) negotiate a deal with higher rent and a longer term than is in your best interest.

Merely knowing about these conflicts of interest will help a company identify them. As the value of using an agent seems to outweigh the potential problems, tenants may choose to use one and keep their eyes open to conflicts of interest. In the end, the answer to "who is watching my back?" is the guy in the mirror.

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