

Blending and Extending Net-Lease Agreements

By Randolph T. Mason,

Senior Vice President & Partner, Lee & Associates Commercial Real Estate Services

Many of my clients are asking me how they can reduce their facilities' rent. I often tell them to focus on the blend-and-extend concept, so we'll look at what tenants need to know before considering an early-lease renegotiation.

Before space occupants brain storm how to utilize this strategy, four criteria should be met. One, the amount remaining on the lease term should be at least 50 percent or less. Two, there needs to be a gap between a tenant's contractually scheduled rent as compared to the current market rent. Three, the tenant needs to be creditworthy. And four, the tenant should have a desire to stay in the building at least three or more years longer beyond the current lease's expiration. Furthermore, tenants wanting to shed excess space may find this strategy a potential cost-saving opportunity.

Landlords won't consider reducing a tenant's rent simply to be nice; the terms need to make sense for them also. As in all negotiations that require a long-term relationship, the outcome must be a win-win scenario. Landlords must reap the value for an early renewal by stabilizing the asset, and tenants must receive a rental reduction in order to extend the term.

Tenant benefits include an immediate rental relief, the opportunity to secure early tenant improvement dollars, perhaps enjoy free rent, shed excess space, reset the operating expense base year, repair HVAC problems outside the CAM charges, and other areas that may be of concern to the tenant. Landlord benefits could include stabilizing the landlord's cash flow, avoiding market competition when the lease expires, limiting re-tenant costs, and perhaps increasing the value of the property.

It needs to be mentioned that blend-and-extend negotiations involve some form of art and tact. Tenants who enter into the negotiations do not have as much leverage as compared to tenants with leases expiring in six to nine months. It is important to understand the make-up of the landlord and know which areas are important to him. Negotiating early-lease renewals or blend-and-extends can be challenging. Investment strategies vary from landlord to landlord and not all landlords will adapt therefore the correct amount leverage and finesse needs to be demonstrated at the correct time.

A correctly negotiated blend-and-extend, especially in the net-lease space, can result in a renewal that benefits all parties and solidifies the long term tenant and landlord relationship.



Randolph T. Mason

Senior Vice President

License ID# 00827150

(949) 790-3113

rmason@lee-associates.com

*Lee & Associates
111 Pacifica Suite 310
Irvine, California 92618*

*p: 949.727.1200
f: 949.727.1299
www.lee-associates.com*

 **Lee & Associates®**
COMMERCIAL REAL ESTATE SERVICES