

Negotiating a Tenant Improvement Allowance

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We remain in the midst of a leasing environment that can clearly be labeled as a tenants market. While we have seen more activity in the past year, good quality tenants looking for space knock on landlords' doors infrequently.

For landlords, we recommend responding quickly. If you don't, others will – although I have been amazed in the past twelve months how many landlords are slow out of the gate.

For tenants, I recommend get out into the market early and survey your options. Your biggest enemy in negotiating a Tenant Improvement Allowance and making a smooth transition to a new space is time. For the vast majority of tenants, the goal is to keep their out-of-pocket costs to a minimum. My experience is that the shorter the time window before their lease expiration, the more likely tenants will run into issues that result in out-of-pocket costs.

One of the key components of your space search is, as mentioned above, the Tenant Improvement Allowance. This is provided by the landlord to build-out or retrofit your space. There are two strategies when it comes to the allowance:

1) A turnkey situation where the landlord provides the build-out based upon a scope of work and an agreed upon space plan. Often landlord and tenant will agree to a cost estimate per square foot. However, there are inherent problems with this structure as tenants are giving up control of their improvement dollars and, unless the project is based on very specific plans, there are numerous ways that surprises can arise that don't work in the tenant's favor.

2) A negotiated, stated dollar amount that the tenant can apply to their own selection of contractor, architects and engineers. This shifts control to the tenant and helps ensure a more timely completion schedule to prevent any holdover rent fees in relocation. This also allows tenants to benefit from a more competitive bid environment and get the most value from their dollars.

The challenge for the tenant is that option number two requires more lead time to properly negotiate the allowance and to allow your project management team to determine the best path the capture savings. Often times, landlords have a project management team with some familiarity with their space, and when you're working on a shortened deadline, the easiest path often seems to be to simply accept the landlord's solution.

This is not to say that there isn't a sizeable supply of landlords who have excellent project management teams that do high quality work. I am simply saying that when you give yourself a longer timeline to survey your options, recruit your own project team and maintain authority, your improvement dollars will give you a better sense of control on your project in addition to the feeling that you've maximized value in your move.

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