FEATURED ARTICLE

HOW TO LOSE A TENANT DEAL IN 10 DAYS

By Steve Lewis

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It happens to the best of us - usually early on in our careers. Even with the best of efforts, some deals get lost. Sometimes, it might not even be our fault; nonetheless important lessons can be learned - lessons that ultimately lead to a more successful career.

"Often in a negotiation, landlords come to the table with their own agenda and processes, and don't consider the tenant's needs," notes Patti Dillon, SIOR, senior vice president, Colliers International, Las Vegas. "They believe their property is the only logical option rather than considering what a competing property is offering that might be appealing to the tenant and worth the 'premium' or 'sacrifice' to leave."

She recalls one particular negotiation, where the owner had a large credit tenant whose lease expiration was well over a year out, but who nonetheless approached the landlord directly about renewing early. "The tenant was willing to commit to a 10-year lease term, but their space had become extremely inefficient over the last few years, so they needed to remodel their premises to make it work long-term and to be able to recruit new talent," Dillon shares. "Replacing a credit tenant of this size could have led to 12-18 months of downtime and significant concessions. Despite this fact, the landlord mistakenly took the position that the tenant was a captive audience and decided to 'revisit it' closer to their expiration date."

The tenant, despite the "sacrifice" and "premium," did indeed vacate the property at lease expiration, increasing an already rising vacancy within the project.

Could anything have been done earlier in the process to prevent this from happening? "A missed opportunity could have been avoided if the tenant's needs had been heard," says Dillon. She also says she could have responded differently and perhaps turned things around. For example, she suggests, "give the tenant the floor. Listen, ask questions, digest their needs, and follow-up with terms that were mutually beneficial."

"It was about 1980 and I was foot canvassing," recalls Jack Britvan, SIOR, president, Commercial Realty Services of Long Island, Inc., Jericho, N.Y. "I came to the door of the largest tenant in the building. I knew their lease was up in about a year and that they were talking to their landlord about renewing."

He was about to enter their reception area when he noticed a sign for employees to use the rear entrance because new carpet was being installed in that area. "Apparently they renewed their lease," says Britvan. "About six months later, I learned that they were relocating. It seems that there was a leak in the building and the landlord was trying to get them to renew, so he quickly replaced the damaged carpet." He notes that he could have canvassed the tenant and "not paid attention to what I assumed to be a logical conclusion." In addition, he says, "I could have discussed this with a senior broker in the office."

"I have actually lost a deal in less than 30 minutes in at least two different instances," says Scott Hensley, SIOR, principal with Piedmont Properties in Charlotte, N.C. "The first was several years ago when I was selling land for a client who was going to 1031 Exchange the proceeds into an investment property. I learned of a new investment offering that had just hit the market, but was out of the office and wanted to do some research before presenting it to him. I got back to my office, did a little research and called him - only to learn he was in his car driving to that building to look at it with another broker. If I had made the call immediately, I would have most likely been the first one to present it to him. The client ended up purchasing the building and every time I drive by it, I am reminded of not making that call soon enough."

Today, Hensley admits he could have pressed for an exclusive buyer representation agreement with this client. "However, he is an active investor in the Charlotte market who has done deals with several other brokers, so it would have been unlikely he would have signed an exclusive," he says.

Start Out Right

One of the keys to reducing the risk of problems like these, says Greg Gunn, SIOR, senior vice president, Colliers International, Salt Lake City, is "always starting my representations with the end in mind. I figure out a strategy and check that plan throughout the process and make course adjustments along the way."

He shares the following lessons he has learned:

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1. Define the Expectations

At the outset, clearly define with your client/co-broker partner what his/her expectations are: "Oftentimes, particularly with a co-broker, I have found that they have waited until the last minute and rushed through the assignment, requirement, and specifications," says Gunn, "and they have certain expectations which either they don't communicate clearly or intentionally withhold."

2. Ask Pertinent Questions

On that first call, slow down the process and ask pertinent questions, such as: Who is your client? How long have you worked with them? Do you have a written, mutually executed agreement with them as to the length, nature, and expectations of the assignment? What is your commission arrangement with them? What is your commission arrangement with me? Will you email me a copy of your arrangement? What is the decision-making process? In your opinion, how long do transactions of this nature usually take? Do you have a partner on this transaction? If so, who is he/she and what is that person's role? Will you introduce me to that person over the phone so I can get to know them some?

"A very important element in this conversation is to determine how the fees will be split. Additionally, it's best to determine whether this co-operating broker is going to be coming to your market, or is he/she expecting you to do all of the on-site work rather than show up, instead focusing on holding the client's hand?" Gunn adds.

3. Written Agreement

Next, draw up a written agreement that clearly outlines each party's responsibilities. This does not need to be a legally approved document, says Gunn. "It's more of an agreement of understanding of responsibilities between both sides," he explains.

"I have learned it is imperative to clearly define his/her expectations at that very first call," Gunn says. "Often as the receiving broker, I am as anxious to receive the assignment as he/she is to deliver it. In fact, one time the broker called me cold and had his client on the other line before we had even a one-on-one conversation to discuss the assignment or who the client was."

Yet despite this well thought out approach, Gunn concedes that things can still go awry. "I have had several situations recently while working both with clients and co-operating co-brokering agents representing tenants that did not end on the favorable note I was working towards," he says.

Key Lessons Learned

Each of the SIORs participating in this article shared valuable lessons these experiences have taught them. "In addition to listening, be flexible, and find creative solutions to accommodate the needs of both parties that achieve the same results they are looking for - but just look a bit different than the 'agenda'," Dillon shares. "The smartest person in the room is not the one talking; it's the one listening."

"Overall, I have found that when working directly with your client, after you have determined their expectations, the most important thing to do is to get feedback along the way," adds Gunn. "So periodically, when you visit them, ask them how you are doing and how you can improve your performance. Every client is different and has a different style of communication; some won't tell you until the transaction is over and a few will readily give you feedback along the way."

Gunn's experience, he continues, is that more often than not, you have to "pry out of their lips how they think you are doing." However, he advises, don't despair and don't give up, because they will usually tell you how they feel about your performance if you ask often enough and in a polite way.

"We sit down with our clients and look at lease expirations 18 months out, regardless of size," says Dillon. "We run a detailed analysis in advance, based on current market and future assumptions in a format that can be manipulated and adapted as the discussions progress and allows us to implement those creative solutions."

"There are many ingredients required for a successful transaction, including knowledge, control, relationships, and timing," adds Hensley. "The timing element is often the most challenging and difficult to control. The lesson is to not procrastinate about 'making that call.' That small delay may be the difference in being in the right place at the right time. This is even more important in the current market with such low inventory."

Britvan's lesson is direct and concise: "Never assume," he cautions.

Be A Good 'Loser'

Sometimes what you do after losing a client can be as important as what you do after you win one. "Be professional and classy (lose gracefully) and make sure you do not burn a bridge because you are disappointed or angry at the moment," Hensley advises. "I always say thank you and tell the client I appreciate the opportunity to work with them (or the opportunity to earn their business if it was just a pitch) and ask them if there was anything I could have or should have done differently that would have allowed me to win or keep the business."

Failures are often better learning experiences than successes, he asserts. "Never waste an opportunity to learn, as it will likely be worth more than the fee on that particular transaction," he says. "In addition to saying thank you, I want to make it easy for my client to walk away, because it leaves the door open so if they want to come back it is just as easy. If the 'breakup' is nasty you will never have the opportunity to do any business with that client or anyone else they know."

Finally, he says, ask for permission to follow up with them at some point in the future - say 90 days. "Depending upon the assignment I may have a chance to win the business back and if given permission I make sure to follow up as I promised," he says. "The majority of our business is either repeat or referrals. It amazes me how a client or former client from a failed or unsuccessful transaction ends up referring us business." ▽

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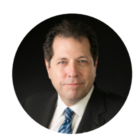

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