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## The Future of Tenant Representation

By Steve Bergsman

INSERT BERGSMAN PHOTO FROM FALL EDITION

Steve Bergsman is a financial journalist whose articles appear in such magazines as *Barron's*, *Wall Street Journal Sunday*, *National Real Estate Investor*, *Urban Land*, and *Mortgage Banker*. He is based in Mesa, Arizona.

Fifteen years ago, a large corporation needing space in a particular city would turn to one of the major real estate brokerage companies in the area. These brokerage firms made their money predominantly by representing landlords in the disposition and leasing of buildings. Today, the same company has the option of using a tenant representative who could be from one of the major brokerages or from a boutique firm specializing in tenant representation and whose focus is to simply represent the interests of a prospective tenant.

Over the past decade, a whole new stratum of the traditional brokerage business has evolved into a full profession, but there are still some lingering controversies as to what the phrase "tenant representation" means and how the service should be compensated.



"If you went into someone's office 10 years' ago, the conversation went more along the lines of explaining what a tenant rep is and what that person does. Today, 90 percent to 95 percent of the tenants are represented by a tenant rep," says **Tim O'Brien, CCIM, SIOR**, President and Principal of RESOURCE Commercial Real Estate LLC in Indianapolis.



He would get no argument from cross-town rival, **Drew Augustin, CCIM, SIOR**, President of NAI Olympia Partners, who notes, "Probably as much as 90 percent of all leases in our market on

the office side involve two brokers, the listing agent and an agent representing the tenant. Landlords have representation, why shouldn't tenants have professional representation?"

The same response would hold true in every major—and even tertiary—market in the United States. The tenant rep concept has taken hold, but there are two schools of thought on what constitutes a tenant rep.

### **Purist vs. Traditionalist**

First, there are the purists, whose companies only represent the tenant, offer few additional services, and do not market landlord listings. However, there are some tenant reps who work for major brokerage companies and bring a team approach to the business because they have associates in their company who could accomplish almost any major task involving real estate.

Augustin considers himself a purist. "I do use strategic alliances," he says, "but my company has chosen not to have in-house space planners, estimators, engineers, etc. I don't disagree with the in-house team concept. It might be a luxury for the real estate broker, but I think if you allow yourself to go with varying alliance partners, you are freer to pick and choose your concept of the right team rather than having the same in-house employees who are not specialized in every space need circumstance."



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Tenant representation originated out of a desire to prevent conflicts of interest, explains **Andrew B. Zegas, SIOR**, President and CEO of Real Estate Strategies Corp. in Kenilworth, New Jersey, and Founder and Chairman of SIOR's Tenant Representation Specialty Practice Board. "Tenant reps don't take landlord listings and do not represent landlords," he says. "This way, a broker is able to avoid a situation where he or she might drive a client down the street, saying to that person, 'OK, Mr. Tenant, I will represent you and do right by you. And, by the way, I also represent that building. So, if you move there I will not be able to represent you . . . I will have to represent the landlord.'"

The full-service real estate companies, Zegas adds, have a variety of practice groups and perform a variety of services, but their traditional business models ensure that the vast majority of their revenue comes from building owner representation, property management, and construction management. Now, full-service companies generate a lot of revenue from being tenant reps as well.

In New Jersey, where Zegas practices, one of his largest competitors for tenant rep business is a full-service real estate company. "This particular competitor represents 25 million square feet of space in New Jersey," he notes. "As a tenant, you have to ask yourself, are you comfortable engaging a real estate service provider to represent you, who belongs to a company representing millions of square feet of space that needs to be leased?"

Obviously, Zegas is a purist, but since his company provides acquisition, disposition, and advisory services to his clients, he refers to himself, not as a tenant rep, but as a corporate advisor.



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Although he works for a large company, **Dan Adamski, CCIM, SIOR**, Senior Vice President at Jones Lang LaSalle in Pittsburgh, Pennsylvania, places himself in the purist camp. Adamski, says his office only offers tenant representation, and that has been a good thing for his business. For example, he says, “another firm has such a tremendous share of the landlord representation market that a recent client would not even consider hiring them because the client was worried that every building they were going to consider would be represented by that same firm.”

Adamski adds that, in Pittsburgh, Jones Lang LaSalle is the only firm that is exclusively a tenant rep. Through alliances with other Jones Lang LaSalle offices, Adamski’s office represents more than 100 major clients, from Microsoft to Unisys and Reed Smith.

Adamski’s office sells objectivity, no conflicts of interest, and market knowledge. “We have never been busier,” he notes. “Five years ago there were three of us in our group; now we have 12 people dedicated to this practice.”

## **The Business of Tenant Representation**

So how does Zezas define tenant representation?

“It’s not about the transaction, it’s not about the deal, and it’s certainly not about the rent,” he proclaims. “It’s about satisfying the client’s business and real estate requirements, providing pertinent information to corporate decision makers so as to empower them to make intelligence decisions. It’s about giving them the confidence to make those decisions about how transactions might affect their companies before they enter into negotiations.”



Tenant reps report to CFOs, explains **Eric V. Postle SIOR**, an office specialist with Washington Partners in Bellevue, Washington. “Their jobs are on the line and what they need to be able to do is show the financial decisions they make are warranted and in the best interest of stockholders.” In short, the tenant rep business has become a much more transparent process.

O’Brien, of Indianapolis, notes that a tenant rep’s job involves four core competencies—education, facilitation, consultation (advising), and negotiation.



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**Donald C. Catalano CCIM, MCR, SIOR**, President of Corporate Realty Consultants in Commack, New York, has been a tenant rep for 25 years and can be classified as a purist. “The cornerstone of what we do is avoiding all conflicts of interest,” he says.

Over the years, Catalano has been able to refine his business approach and now offers his clients a rating system, which he says is not unlike a FICO score. Whereas many brokers or even tenant reps concentrate on the two most important factors to a client—price and amount of space—Catalano’s rating system includes many important ancillary factors that can swing a deal, including signage, main road access, parking, distance from a main highway, and which floor of a building is offered.

### **The Integrated Services Approach**



On the opposite end of the tenant rep spectrum sits St. Louis-based **Lynn B. Schenck, SIOR**, who is a Senior Vice President with CB Richard Ellis, one of the largest real estate service companies in the world. “Part of being with a full-service company is having a lot of resources,” she says. “For example, I can consult with our project management people so they can give me estimates on tenant improvements. They can review the construction budget to see if it is realistic. I can turn to property managers to compare building operating expenses and how they relate to other buildings.”

The value-added service that a tenant rep brings to the table,” Schenck adds, “is to understand the client’s needs and the ability to think outside the box.” For example, Schenck represented an education group that sought a campus in south St. Louis. She found a property that was not on the market but could be a great solution for her client. She approached the owner on behalf of her client. Subsequently, her client was able to lease one building and entered into a lease with an option to purchase a second building. After floating a bond issue, they were able to convert the second lease into an acquisition. Total square footage was about 100,000 square feet with a total value of \$15 million.



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In Houston, **William L. Ginder, CCIM, SIOR**, a Vice President with Caldwell Companies, recently completed a \$5.5 million dollar lease deal for 110,000 square feet of space. The company taking the space was a large electrical distributor.

The company “was already in Houston but needed to expand to a larger facility, and it had to be done quickly,” Ginder says. “The lease was in the northern area of Houston, where we were very much plugged in, so we were able to not only give the company options, but negotiate the best deal.”

Ginder feels the added value that he and other tenant reps bring is knowledge—an understanding of the local market. “It’s also being aware of all options available and listening to clients so you know what is important to them,” he says. In the case of the electrical distributor, the company had focused on one area and even had a building in mind, but Ginder found a more suitable property.

“We were able to change their minds,” he recalls, “by saying to them, ‘We understand what you are looking for, what your requirements are, and you should consider this building—doesn’t it set up better for your business?’”



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Perhaps, the best explanation of what a tenant rep does comes from **J. Jeffrey Castell, CCIM, SIOR**, a Principal with Colliers Turley Martin Tucker in Indianapolis. “Under ordinary circumstances, any space occupant is less well versed about the local real estate market than the people with whom they are negotiating,” he says. “The tenant rep levels the playing field for the client, affording them an equitable opportunity to make the best business decisions.”

Castell is not of the purist school. As he notes, “delivering fully integrated service lines will be a necessity for successful tenant reps of the future.”

## Tenant Representation in Smaller Markets



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In Salt Lake City, **Greg Gunn, SIOR**, Senior Vice President at Coldwell Banker Commercial NRT, commented that the Salt Lake market is not large enough to support local offices of many of the national companies who do tenant representation. But, that's all right with Gunn, because when those firms have clients that need to be in Utah, many are referring work to him. Recently, on a referral received from a brokerage that does not have an office in Salt Lake, Gunn secured a 17,000-square-foot space for a large medical services company.

Recently, on a referral, Gunn secured 17,000 square feet of space for a European technology company and 117,000 square feet for an educational concern out of Nevada. The latter, a \$40 million deal, was the largest-ever tenant rep transaction in the state.

By necessity, Gunn is not a purist. "There is not quite enough tenant rep business here yet for a person to do it exclusively," he says. "We still do the landlord side as well."



**Morris A. Knutsen, SIOR**, a Senior Vice President for Mid America Commercial Real Estate of West Des Moines, Iowa, faces the same limitations in his Mid-West location. His company is a full-service real estate firm.

However, Knutsen believes he is one of the few brokers in the Des Moines region who specialize in tenant representation. "I do a little landlord work," he says, "but only for tenants and buyers who are disposing of real estate as part of their overall strategy." He adds, "I certainly have no interest in losing a relationship, but I don't want to become a landlord broker."

How does Knutsen keep busy in a relatively small market? Like Gunn, the answer is found in national referrals. "I believe I probably do more referral work than any other broker in Des Moines," he says. "I work for national brokerage firms like Colliers, CresaPartners, Cushman & Wakefield, Equis Corp., and Staubach that do not have offices in Des Moines."

In a recent deal, a national fabricator of food equipment that was already in Des Moines needed to vacate an old, functionally obsolete facility and consolidate in a more modern warehouse and distribution building. Knutsen was able to isolate the opportunities that met the company's criteria. The fabricator eventually chose a 70,000-square-foot property in suburban Des Moines and signed a long-term lease in a state-of-the-art facility.

Remember Donald Catalano of Corporate Realty Consultants in New York? His company has a unique way of making sure transactions in tertiary cities are handled properly. His

company has its own plane, and he flies there. Once at the location, Catalano can manage the deals himself because he has a real estate license in 14 states.

“We will go to the small towns,” says Catalano. “We always go onsite and do the tours ourselves and make sure all the research is done properly. We just don’t pass the deal.”

### **Future Prospects for Tenant Rep Fees**

The future of tenant representation will be about customer service, whether it’s responsiveness, follow-up, or concierge services, offers O’Brien of Indianapolis. “Although we’ve heard it—but not seen it over the last 10 years—tenant reps will become more like consultants and less like brokers. Unfortunately, if we as brokers don’t adequately adjust, there will likely be fee compression.”

O’Brien asserts, “Without a doubt, there will be information vendors that sprout up providing ‘flat fee’ services—resembling discounters like for salebyowner.com for do-it-yourselfers. That will become a common trend in the next five years.”

When questioned about fee compression, most tenant reps interviewed for this article claimed nothing like that has yet appeared in their markets.



There are some exceptions. **Robert J. Renaud, CCIM, SIOR**, Vice President of Advisory and Corporate Services for GVA Devencore Worldwide in Toronto, notes, “Some tenant reps have not defended their value and have accepted lower fees for lower value services; however this is the exception rather than the rule. It has not happened at our firm.”

Renaud adds, “The larger corporations that are measured on a quarter-by-quarter basis need to keep costs down and find ways of reducing P&L; so whatever they can do to try to squeeze suppliers, they will do that. This is a short-term perspective, and in the long run we believe you get what you pay for.”

As Castell of Colliers Turley Martin Tucker in Indianapolis concludes, “Fees are always competitive and as with any service industry we always have to demonstrate the value we are creating and provide to [the] client proof that savings and service far out-weigh any associated costs.”

*(Steve Bergsman is a financial journalist and the author of the Maverick Real Estate books. His third book, Passport to Exotic Real Estate: Buying U.S. and Foreign Property in Breath-Taking, Beautiful, Faraway Lands, will be published in spring 2008. He is based in Mesa, Arizona.)*