

Co-ops face up-front expenses when leasing to new commercial tenants. To ease the sting ...

SPREAD COSTS OVER TIME WITH STRATEGIC NEGOTIATIONS

Finding a new commercial tenant for a co-op space and negotiating the lease can be challenging. While filling an empty space is important, often money will have to be spent up front on renovations and broker fees. A big part of the negotiations will be how

to pay for these costs and when. Of course, you'll also want to find a tenant that can live happily within a residential setting.

THE RIGHT TENANT. Along with financial concerns about a new tenant, there are lifestyle issues that you will want to consider. These can limit who you will want as a commercial tenant. For example, very few boards will agree to rent to an after-hours club, because they don't want large noisy crowds outside at 2 a.m. Medical facilities and food establishments also present concerns for co-op shareholders. A supermarket will have loud deliveries in the morning and a lot of trash in the evening, and restaurants involve cooking aromas and venting issues. A marijuana dispensary might also present image problems for a co-op.

RENT CONCESSIONS. In most cases, a broker will negotiate the financial terms of the lease, including

the base rent as well as any rent abatement to cover necessary renovations or space reconfigurations. We had a building where a delicatessen moved out after 30 years, taking its big freezers and refrigerators with it, and a lot of work had to be done to fix up the space. In a situation like this, you might give the new tenant three months of free rent while the renovation work is being done. However, the lease may be for 10 years, so rather than giving the tenant free rent up front, it may be better for the co-op to spread the concession over time. In this way, the co-op can satisfy its own cash flow issues.

BROKER FEES. Commercial brokers earn fees, and they often want to be paid at the lease signing. Their fee might be on a sliding scale — say, 3% of the first year's rent, 2% of the next three years' and 1% of the next four years'. The co-op typically pays the tenant's broker a full commission and its own broker, if it has one, a half commission. Depending on the rent, broker fees could be several hundred thousand dollars — funds a co-op may not have. Just as with the rent concessions, I would negotiate to spread that payment over time. Brokers won't like that, but if they want the transaction to happen, they will generally work with you. You want a viable tenant, even if you have to spend money up front to get one.



**MARK
AXINN**
Partner
Phillips Nizer