



The Pendulum Has Swung!

A lot has changed in the Denver Metro Area office space market in the last few years. We've clearly shifted from a tenant's market to a landlord's market. Renewing or relocating at a reasonable lease rate requires professional strategic planning and inside knowledge about the motivation and history of individual landlords and properties.

In this market, it's important to understand what might be driving landlords. Many owners purchased their properties in the pre-2007 timeframe when prices were relatively high. Then, due to the subsequent economic recession, few were able to make a profit on their investments. Those that were able to weather the storm are currently enjoying much higher occupancy rates—in the 90% range compared to around 60% just four to five years ago. In short, they are seizing the opportunity to make up for lost time by setting much higher lease rates today...and getting them.

Worse yet many of these landlords have subsequently sold their properties for record high amounts so a new group of owners are counting on rapidly rising rents. In many cases, the renewal rates they are offering their tenants are 15% to 20% higher than the current rates. In fact, they are counting on these renewals from existing tenants who are waiting until it is too late to consider alternatives. The best strategy for a tenant who would like to remain in their space is to thoroughly research the market so they can legitimately document less expensive relocation options in the course of their negotiation with their current landlord. In other words, the more a tenant wants to stay in their space, the more relocation options they need!

The tenant's market era early in this decade occurred during a period when commercial office space was overbuilt and when the poor economy drove a downturn in demand. Now, in most submarkets, new construction has been at a virtual standstill for the past

five to six years. Vacancy rates on most properties have dropped from more than 40% to 10% or less. While there are some new properties coming out of the ground, their lease rates will reflect the much higher construction costs developers face today and the features demanded by extremely image-conscious tenants.

Regardless of trends, whether their goal is to renew or relocate within two to three years, organizations must create leverage in preparation of a lease negotiation. Now is the time to review the lease, get an idea of what type of increase the landlord likely will propose, and develop a specific strategy to create leverage to achieve the best possible outcome in the upcoming negotiation. It is better to take the initiative to prepare now than be shocked when the renewal or relocation date draws near.