



# Lease Renewal Clause vs Re-Negotiate / Relocate

Most companies that like their current location(s), solely utilize their lease renewal clauses when their current lease(s) is about to expire. This case study shows you how a simple lease audit can unlock significant savings if executed correctly. GMX was able to identify areas of leverage and after several rounds of negotiations, to secure the client a significant overall lease savings as well as the ability to amend certain outdated clauses in the lease that would have had a negative impact on the client.

# Lease Renewal Case Study



## **CLIENT SITUATION**

Client had a 5,430 square foot office lease expiring in New Jersey. They wanted to stay at their current location and reduce the overall rental cost. Their original broker recommended they renew their current lease, based on their renewal clause. After concluding our lease audit / abstract ; we recommended a two-pronged approach.



## **STEP 1**

Start discussion with the current landlord to renegotiate the base rent, reset the base year, and amend certain clauses in the current lease.



## **STEP 2**

Survey and identify alternative options to create leverage and ability to relocate.

# Lease Audit / Abstract

- LEASE AUDIT / ABSTRACT PROCESS
  - Collection of Data, Bills, and Lease Documents
  - Review Lease and all Amendments to the Lease
  - Identify Financial Issues and any Outdated Clauses that could have negative impacts on the client.
  - Audit all bills that are associated with the lease to find the lease's **True Cost**.
  - Calculate Landlords Replacement Cost if we were to vacate the space. Carrying Costs, Marketing Cost, Broker / Legal Cost, and New Deal Cost.
  - Compile a Comprehensive Strategy focusing on reducing overall lease cost as well as amending any outdated clauses that are or could have negative impacts on the client.



# Lease Audit / Abstract Review

Lease Abstract – Prime Lease, 1<sup>st</sup> Amendment, 2<sup>nd</sup> Amendment  
 250 Pehle Ave  
 Saddle Brook, NJ

Lease Clause	Doc.	Article	Page	Summary
<b>Building Address</b>	Prime Lease	Intro	1	<b>Park 80 West, Plaza 1 – 250 Pehle Ave, Saddle Brook</b>
<b>Tenant</b>	Prime Lease	Intro	1	NEC Financial
<b>Landlord</b>	2 <sup>nd</sup> Amend	Intro	1	Galil Management
	Prime Lease	Intro	1	CBRE Investment Management, L&L Holding <u>Company</u> , <u>Pearlmark</u> Real Estate Partners
<b>Demised Premises</b>	Prime Lease	Intro	1	8,796 <u>rsf</u> (3 <sup>rd</sup> Floor)
	1 <sup>st</sup> Amend			7,404 <u>rsf</u> (7 <sup>th</sup> Floor)
	2 <sup>nd</sup> Amend			5,872 <u>rsf</u> (2 <sup>nd</sup> Floor)
<b>Use</b>	Prime Lease	Intro	1	General Office
<b>Lease / Rent Commencement Date</b>	Prime Lease	Intro	C	March 31, 2008
	1 <sup>st</sup> Amend			March 11, 2013
	2 <sup>nd</sup> Amend			March 31, 2019

All information furnished regarding property for sale, rental or financing is from sources deemed reliable. No representation is made as to the accuracy thereof and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice.

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Lease Clause	Doc.	Article	Page	Summary
<b>Expiration Date</b>	2 <sup>nd</sup> Amend	2	1	October 31, 2025
<b>Refurbish Allowance</b>	None			NA
<b>Expansion Rights</b>	2 <sup>nd</sup> Amend	9	4	Tenant's right of <b>First Offer</b> and applies to any contiguous space on the 2 <sup>nd</sup> floor.
<b>Extension Option</b>	2 <sup>nd</sup> Amend	8	4	Reference Article 34 of Prime Lease. Tenant to give Landlord 12 months' notice. (10/2024)
<b>Base Rent</b>	2 <sup>nd</sup> Amend	5	2	11/1/18 – 4/30/19 – Free Rent ; 11/1/23 – 03/31/24 5/1/19 – 10/31/19 - \$34.00 <u>psf</u> 11/1/19 – 10/31/20 - \$34.50 <u>psf</u>

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Lease Clause	Doc.	Article	Page	Summary
				11/1/20 – 10/31/21 - \$35.00 psf
				11/1/21 – 10/31/22 - \$35.50 psf
				11/1/22 – 10/31/23 - \$36.00 psf
				4/1/24 – 10/31/24 - \$36.50 psf
				11/1/24 – 10/31/25 - \$37.00 psf
				Possible final rent increase with Additional Rent - \$47.80 or higher (based on the actual additional rent)

With Additional Rent - \$47.30



The final year of their rent payments had increases to \$37.00 psf which was \$3 psf - \$4 psf over market

<b>Surrender</b>	2 <sup>nd</sup> Amend	4	2	Within 5 business days following the Extension Commencement Date, Tenant will surrender the previous premises.
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<b>Operating Expenses Base Years</b>	2 <sup>nd</sup> Amend	6	2	Calendar 2018
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The lease audit was able to uncover that the client's base year had not been reset correctly and was adding an additional \$10.80 psf to the base rent, costing them an additional \$58,644 in rent annually.

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Lease Clause	Doc.	Article	Page	Summary
<b><u>Assignment &amp; Sublet</u></b>	Prime Lease	11	13	This section is in heavy favor of the landlord and doesn't match today's standard leases. We should have this amended if we sign a new amendment.
<b>Security Deposit</b>	Prime Lease	5	7	\$0.00
<b><u>Holding Over</u></b>	Prime Lease	24	27	150% of Base Rent and Additional Rent for the first 30 days. 200% of Base Rent and Additional Rent after the first month. Tenant will be liable to Landlord for all direct and Consequential damages; Tenant may also be liable to "New Tenant" and any damages caused by the hold over.
<b><u>Termination Option</u></b>	2 <sup>nd</sup> Amend	7	3	Tenant to notify Landlord no later than October 21,2022. Termination Penalty - \$105,696.00 (6 months rent) plus any unamortized portion of all actual expenses (Free <u>rent</u> , TI,



GMX understood that the current market favored the tenant, making this the ideal time to renegotiate certain terms that may have favored the landlord in previous negotiations.



The penalty of additional percentage of base rent is typical in a holdover clause but the tenant being liable to the "New Tenant" creates unwanted potential risk.

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<b>Additional Rent</b>	July 2024 Invoice			Based off the last statement (July 2024) the additional rent charge is \$5,284.54 or \$10.80 psf
<b>Real Estate Taxes</b>	Prime Lease	7	5	Real estate taxes are included in Operating Expenses. Exhibit C outlines "Additional Charges "  Electric Energy Charge:
<b>Tenant Utilities</b>	2 <sup>nd</sup> Amend	5	2	\$1.75/rsf (this might go to \$2.00 or above as electricity has increased)



GMX audited the most recent 12 months of rent bills and was able to confirm that the client was paying \$10.80 psf , in additional rent.

**GMX identified \$58,644.00 of yearly rent overpayment.**

# Transaction Summary

After the abstract review we started a dialogue with the Landlord to renegotiate some key lease terms.

- Starting Base Rent to reflect more realistic current market condition
- Concession Package comparable to current market conditions
- Rewrite outdated clauses that could have negative impacts to the Tenant. (Termination Cause, Holdover Clause, and Sublease Clause)
- Reset current base year as we are being charged an extra \$10.80 (per square foot) in rent. Tenants total base rent with the additional rent was \$47.80 (per square foot), which is about \$14.00 (per square foot) over current market pricing.



# Transaction Summary

Simultaneously we identified 3 comparable potential relocation options

- To Create Negotiation Leverage
- Hold Current Landlord Accountable
- Let the Market Dictate Pricing thru Competitive Competition
- After Several Rounds of negotiations, we narrow the 3 potential relocation options to 1 finalist
- The Finalist will directly compete with the Current Landlord

Property Ownership :	Theta Holding Company	Galil Management
Capital Structure / Events :	Private Owner	Developer / Owner
Building Size:	414,650 SF	281,000 SF
Class:	A	A
Year Built:	1988	1972
Property Condition & Renovations:	Lobby	2005
Type:	Office	Office
HVAC	8 am - 6pm (Monday - Friday )	8 am - 6 pm (Monday - Friday)
Security / Concierge:	24/7 Access	24/7 Access
SF Available:	178,309 SF	50,221 SF
Building Vacancy:	43%	17.0%
Asking Rental Rent (Gross):	\$28.50 PSF	\$35.00 PSF
Premises:	approx. 6,000 RSF	5,872 RSF
Floor	4th	2nd
Slab-to-Slab Height:	13'0	12'
Proportionate Share:	1.40%	Per Existing Lease
Target Lease Commencement	11/1/25	11/1/25
Lease Term:	7 Years , 5 months	5 Years, 3 Months / no change & 7 Years, 4 Months / 7 Years , 5 Months
Security Deposit:	Per Tenants Financials	Per Tenants Financials
Rental Rate 5 Years:		\$35.00 / \$34.50
Rental Rate 7 Years:	\$27.50 / \$26.50	\$34.50 / \$34.00
Annual Rental Increase:	\$0.50 per year	\$0.50 per year
Average Monthly Rental Expense: (7 Year deals)	\$14,000.00	\$16,351.89
Average Rent Over Term :	7 Year \$28.21 psf plus TE	5 Year \$35.63 psf plus TE / 7 Year \$35.65 plus TE
Rent Abatement 5 Years:		3 Months / no change
Rent Abatement 7 Years:	3 Months / 5 Months	4 Months / 5 Months
Base Year:	2026	2026
Tenant Electric:	\$1.75 psf	\$1.75 psf
Parking Allocation:	4 per 1,000 rsf	3.5 per 1,000 rsf
TI Allowance 5 Years:		\$10.00 psf / no change
TI Allowance 7 Years:	\$30.00 psf / \$40.00 psf	\$15.00 psf / \$17.50
Tenant Improvement Allowance Amount - 5 year Term		\$58,720
Tenant Improvement Allowance Amount - 7 year Term	\$240,000	\$102,760
Rent Savings From Current Lease - 5 Year Term	\$396,122.80 over the lease term	\$193,922.80 over the lease term
Rent Savings From Current Lease - 7 Year Term	\$571,623.92 over the lease term	\$291,065.25 over the lease term

# Renewal Clause vs Re-Negotiation

## 7 Year Lease Savings is almost \$700,000

<u>Lease Year</u>	<u>Renewal Clause Rent</u>	<u>Yearly Expense</u>	<u>Re-Negotiated Rent</u>	<u>Yearly Expense</u>	
1	\$48.30	\$283,617.60	\$34.00	\$183,010.67*	
2	\$48.80	\$286,553.60	\$34.50	\$185,702.00*	
3	\$49.30	\$289,489.60	\$35.00	\$188,393.33*	
4	\$49.80	\$292,425.60	\$35.50	\$191,084.67*	
5	\$50.30	\$295,361.60	\$36.00	\$193,776.00*	
6	\$50.80	\$298,297.60	\$36.50	\$214,328.00	
7	\$51.30	\$301,233.60	\$37.00	\$217,264.00	
8			\$37.50	\$91,750.00	(only 5 months)
	<b>Total</b>	<b>\$2,046,979.20</b>		<b>\$1,465,308.67</b>	
				<b>\$102,329.71*</b>	(Converted TI)
	<b>Final Total</b>			<b>\$1,362,978.96</b>	<b>\$684,000.24 Total Savings</b>

\*Rent in Red Represents 1-month free rent during that lease year. The landlord also agreed to let the client convert the \$17.50 of Tenant Improvement allowance to free rent which is an additional \$102,329.71 saved.

# Final Recap

The Clients goal was to stay in their current location, reduce their rental cost , and amend outdated clauses in the lease. GMX was able to accomplish all these goals.

- Client Amended and Renewed the Lease at Current Location

- Current Location Overall Rental Savings = **\$684,000.24**

- Amended the Sublease Clause, Base Year, Holdover Clause and Termination Clause