





(continued)

**Percentage rents.** The point at which gross sales trigger the payment of percentage rents may be raised during a portion of the lease term or during the entire term

5. **Escalation clause.** In the typical lease, the tenant must pay a proportionate share of increases and operating costs as well as a percentage rental. There are adjustments that can be made here. A

cap could be put on the maximum amount of escalation costs each year or on the maximum increase each year. Another way might allow the tenant to deduct a percentage of escalation costs from percentage rents; this could be an excellent negotiation for a tenant who expects to show significant increases in sales volume over a period of years.

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## Office Building Comparisons

Newer office buildings may fill up at the expense of older office buildings. Since new buildings cost more to build than the older ones, rents may be higher. The actual dollars-per-square-foot costs must be compared, along with other benefits that the tenant may receive, before a final decision is made by the tenant on staying or moving.

In many areas, there are a number of vacancies reported in office buildings. Most of this available space is in the newer properties. One of the most important jobs of a leasing agent for a building with this available space is to analyze other buildings to see if any tenant could be induced to move.

**Here are some of the items for comparison:**

1. What is the time factor for employees at the old location? In a business' expansion at the old location, they may have expanded to different floors or to different buildings, as more space was needed. There may be a big loss in employee time due to the inconvenient layout.
2. Maybe the tenant is planning an expansion in

the next few years, which will make it necessary to rent space in the old location at then-current rentals, raising the average rental per square foot for the tenant's entire space, in a less than adequate location.

3. Don't assume that the new space rentals are not competitive. Cost-of-living clauses in the tenant's existing lease may have escalated the rent level up to the costs in the newer, more modern building.
4. The newer building represents more efficient design, better and newer lighting, modern in every way. The intangible improvements in employee morale and efficiency might overcome any slight difference in dollar-costs per month.
5. Finally, a change in location to a more, prestigious building in a better part of the community can contribute to the reputation of the tenant—and ultimately to the profitability of the business.

The tenants who could be good new tenants at the new location will usually not be aware of all of the benefits of a move until they are contacted and are given the opportunity to make the comparison.

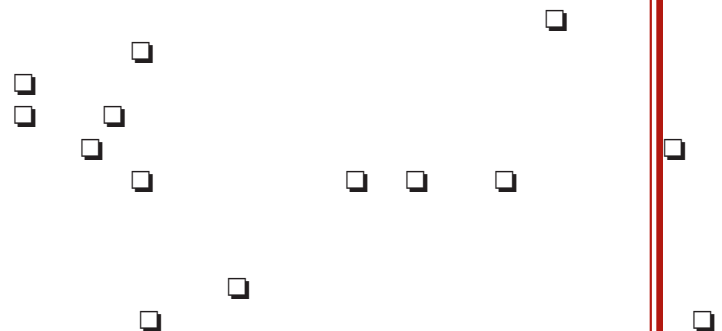
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## Negotiating The Termination Of A Lease

One or both of the parties to a lease of commercial or office space may want to sever the relationship prior to the end of the lease term. A tenant may want to terminate the tenancy, for example, because his business has grown since he first moved in and he requires larger quarters. A landlord may want to terminate the tenancy because there is a better prospective tenant available.

tenant wants to leave

while leases normally provide for the landlord's



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without incurring an expense. As soon as the building manager becomes aware of the situation, he should seek out a new tenant, first offering the space to other tenants in the building who may need more space than they now occupy.

When a new tenant has been lined up, the landlord should determine the cost of altering the space for the new tenant and the amount of time from the date when the old tenant vacates to the date when his successor will move in. The landlord and the outgoing tenant then sign an agreement for the tenant to pay a flat sum consideration for early termination, taking into account the cost of new alterations and any applicable re-renting commission. In other words, the outgoing tenant agrees to pay the rent, at the rate specified in his lease, for the period of vacancy, plus the cost to the landlord of securing a new tenant.

#### **Landlord Wants To Terminate**

The owner of the building may seek an early

termination of a tenant's lease because of the expansion requirements of another tenant in the same building or because of condemnation or for some other reason. Undersuch circumstances, the owner must expect to indemnify the tenant in some way. The following matters should be taken into consideration in arriving at a settlement with the tenant:

- The successor tenant's rent may be at a higher rate than the rate paid by the outgoing tenant.
- The outgoing tenant may incur extra expenses because of the early termination.
- The owner may realize a profit on the alterations. Besides the cost of the allocable proportion of alterations required for re-renting the space to the new tenant, the landlord must also take into account the unexpired value of the changes attributable to the original tenant.
- If the new tenant is already leasing space in the building and needs more for expansion, the new lease assures his prolonged tenancy.



## **About Cravey Real Estate Services, Inc.**

Cravey Real Estate Services is a full service commercial and industrial real estate company based in Corpus Christi, Texas. We sell, lease, and manage Commercial, Industrial, Warehouse, Office, Retail, Shopping Centers, Land, and Investment Properties in Texas.

5541 Bear Lane, Suite 240  
Corpus Christi, TX 78405  
361-289-5168 Office  
cravey@craveyrealestate.com  
<https://craveyrealestate.com>

Established in 1975, we provide the most innovative and cost effective real estate solutions for our clients on local, regional, national and international assignments. Our brokers at Cravey Real Estate Services have a reputation for reliability and prudence, providing clients with real estate leasing and sales, investment counseling, asset and property management and real estate marketing services.

We have the experience and resources to help you with all of your property requirements. A single relationship with Cravey Real Estate Services can provide you with a world of commercial real estate resources in Corpus Christi and South Texas.

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