

Eye Opener

Tuesday May 9th, 2017

1 Mostly Toolbox Approach

2 Convert to Financial Examples

3 Commentary of Workplace Trends

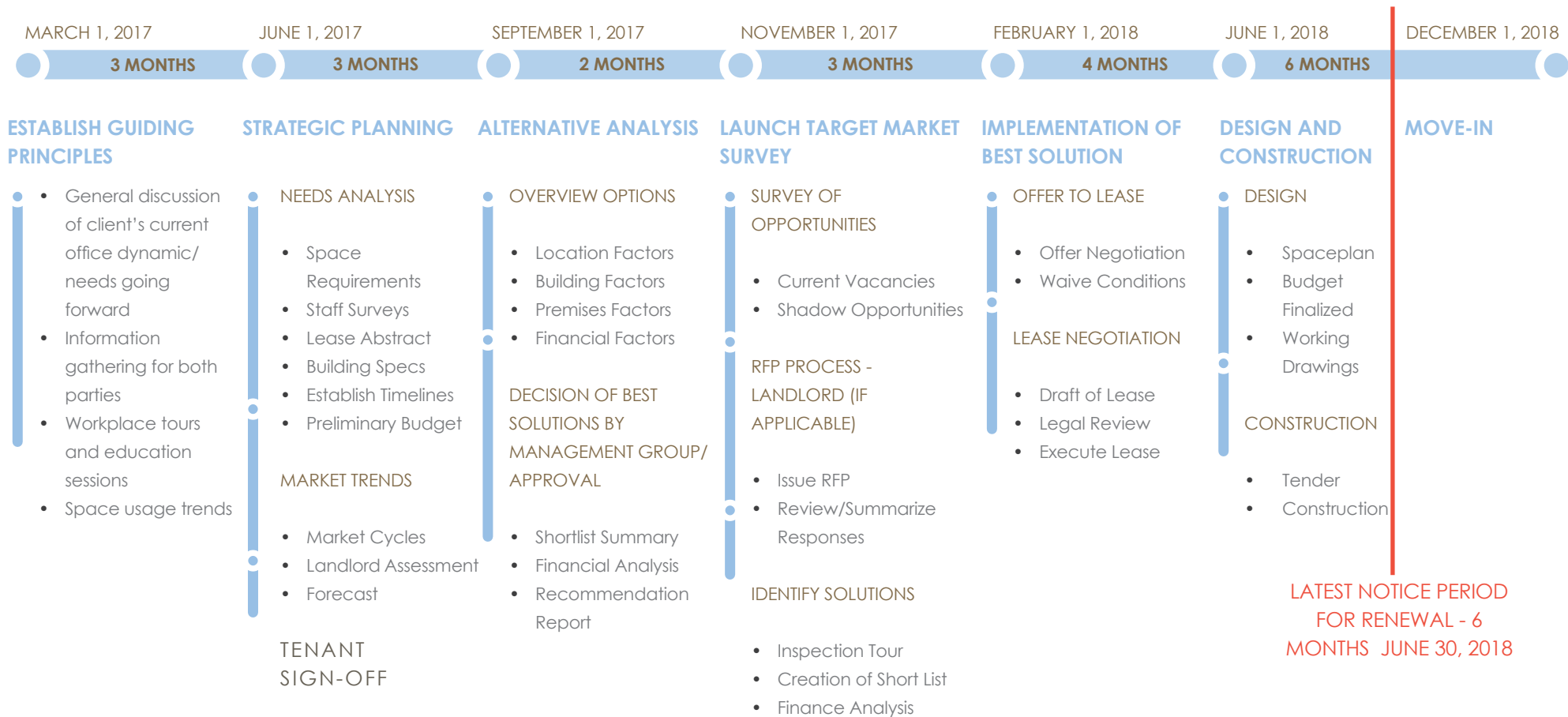


40-50 clauses in Ellington's standard offer

Choosing 5 clauses not normally associated with a financial implication

Show you how to negotiate then to save costs and mitigate risk using 20,000 square feet office lease example and/or 100,000 square foot industrial lease example

First, let's talk about strategic timing.....



RIGHT TO RENEW/EXTEND

Important right to have.....
.....but right of last resort.
Remember the car dealership
example!



RIGHT TO RENEW/EXTEND

If you have to move, the following is a typical budget per square foot for a 20,000 square foot office tenant

Design fees and permits	\$4.00
Mechanical & electrical drawings	\$3.00
Security	\$1.00
Signage	\$0.50
White noise	\$0.50
Move costs	\$2.00
Construction costs	\$60.00 to \$90.00
IT*	<u>\$10.00</u>
	\$81.00 to \$111.00 psf
	\$1,620,000 to \$2,220,000**

*varies greatly per company

**audio visual and other equipment not included

MEASUREMENT

Building Owners and Managers Association B.O.M.A

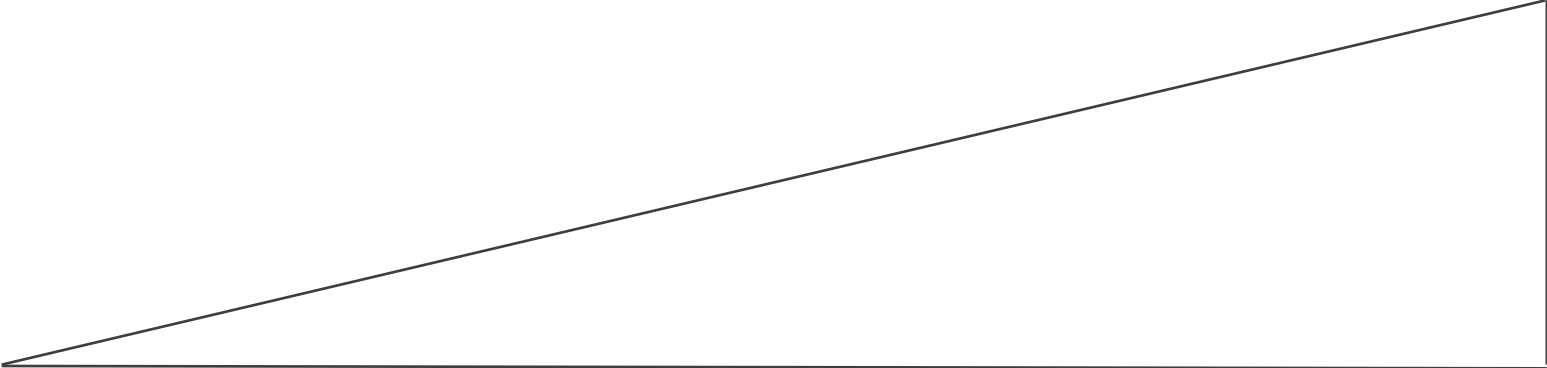
1980



1996



2010



Rentable
Square
Footage

Updated in BOMA standard

MEASUREMENT

20,000 sf useable at 12%= 22,400 rsf

20,000 sf useable at 18%= 23,600 rsf

Delta 1,200 rsf

Suburban implication 1,200 at \$38.00 = \$45,600/year

Financial Core implication 1,200 at \$65.00 = \$78,000/year

RIGHT OF FIRST OFFER (ROFO)

Typical ROFO Clause

Provided Tenant is the original tenant or permitted transferee, not in default and is in occupancy and conducting business in all the Premises, **should any contiguous space become available** (the “ROFO Space”), the Landlord shall notify the Tenant in writing of the date of availability of the ROFO Space and the terms on which the Landlord is prepared to lease such space to the Tenant and the Tenant shall have ten (10) business days to accept the Landlord’s offer for the ROFO Space failing which the Landlord shall be free to lease the ROFO Space to another tenant.

Ellington’s ROFO Clause

Providing the Tenant has not sublet more the **75%** of the Lease Premises and is not in material default of the Lease, the Landlord agrees that the Tenant shall have the prior right at all times during the Term and all extensions thereof to offer to lease from the Landlord any space which becomes available to lease in the Building (the “First Offer Space”) with base rent and terms to be the Fair Market and with the same expiry date as contained herein. The Landlord shall give the Tenant notice of any space which is available for lease and the Tenant shall have ten (10) business days following receipt of such notice to exercise its right. In the event the Landlord and Tenant do not agree on the Fair Market rates and terms, it shall be determined by arbitration as herein provided. This right shall be a continuing right which shall survive any lease or offer to lease by the Landlord to others despite the Tenant’s failure to exercise any rights hereunder and shall bind the Landlord, its successors and assigns. **For any space in the Building which is vacant and not leased to any other tenant as of unconditional acceptance of this Offer, availability will be determined when the Landlord receives a bonafide third party written offer.**

RIGHT OF FIRST OFFER

Extra costs associated with non-contiguous expenses:

- Typically need more square footage as you cannot leverage existing infrastructure
- Can have operational penalties
- Can have cultural/morale issues
- Higher IT, security and AV costs

ADDITIONAL RENT/REPLACEMENTS

Typically



Excluded

Foundation
Bearing Walls
Roof Deck



Included

Roof Membrane
Roof Top HVAC Units



ADDITIONAL RENT/REPLACEMENTS

- Important to define useful life and amortization rate
- Longer the better
- Don't just rely on GAAP. Try to define or consider using manufacturer's suggested useful life

100,000 SF INDUSTRIAL BUILDING

Roof membrane annual cost

12 years at 7% vs.

20 years at 5%

Original cost \$800,000 \$94,000 per year vs \$61,000 per year

HVAC roof top units annual cost

8 years at 7% vs.

15 years at 5%

Original cost \$40,000 \$6,260 per year vs \$3,670 per year

FIXTURING PERIOD, FREE RENT AND DELAYED POSSESSION

Typical Fixturing Clause:

Upon execution of the Lease by the Tenant and Substantial completion of Landlord's Work, the Tenant shall be permitted to have occupancy of the Leased Premises, whether exclusively or in common with the Landlord, its contractors, subcontractors or employees, the Tenant shall be bound by all the provisions of the Lease saving those requiring payment of Basic Rent, Operating Costs or Property Taxes. During such period prior to the Commencement Date, the Tenant shall have the right to occupy the Leased Premises for the purposes of carrying on the Tenant's business provided the necessary occupancy permits are in place.

Ellington Fixturing and Delayed Possession Clause:

From June 1, 2017 to December 31, 2017, the Tenant will be permitted to have occupancy of the Leased Premises to complete the Tenant's Work and then to carry on its business (the "Fixturing Period"). During the Fixturing Period, the Tenant shall be bound by all the provisions of the Lease saving those requiring the payment of Basic Rent and Additional Rent. **Should the commencement date of the Fixturing Period be delayed through no fault of the Tenant all dates contained herein shall be adjusted one day for every one day of delay save and except the Expiry Date.**

Objective:

Monetary benefit from out of term free rent or at very least leave enough time for a proper construction timeline.

FIXTURING PERIOD, FREE RENT AND DELAYED POSSESSION

Value of one month's rent

20,000 sf office suburban	\$ 63,300
20,000 sf office financial core	\$108,300
100,000 sf industrial	\$ 91,600

ADDITIONAL RENT/LANDLORD MANAGEMENT FEES

Administration Fee:

Direct and indirect costs for administrative personnel

- property managers allocation
- head office salaries, benefits allocation

Management Fee:

3% to 5% of gross rent **OR** 15% of operating costs; whichever is greater

Incentive for landlords to increase gross revenues

Example - Recent 25,000 sf Renewal

Management Fee
3%

\$12,000

Property
Management
Allocations

\$10,000

Head Office
Allocations

\$4,000

WORKPLACE TRENDS

What CFOs say:

- The natural light surprise
- Square foot per person
- Employee retention



WORKPLACE TRENDS

What Millennials say:

- Prefer dedicated work area - no hotelling
- Want to be trained/taught
- Senior management work habits

