

# MAXIMIZE Your Free Rent

By Dale Willerton

## Negotiate for free rent - even on lease renewals

The most free rent I ever negotiated for on behalf of a client was 48 months. That's right - the tenant received the first four years of base rent free on a ten year term. At one of my recent seminars a person spoke up and stated that nobody could get more than 3 months of free rent in the Calgary market. I went on to explain that I had previously negotiated 12 months free for a tenant in major Calgary shopping centre. How is that possible someone shouted. To uproarious laughter I replied that I had asked for eighteen months free. Further negotiations were held until the deal was done. The tenant was pleasantly flabbergasted to learn that for the first six months he would receive gross rent free. He would then pay rent for six months, then receive months thirteen through eighteen base rent free. The tenant was an experienced businessman with other leased premises. He confessed that he would have settled for three months free (and been quite happy) had he been doing his own negotiating.

At other seminars I've overheard tenants saying "free rent - I didn't know I could get free rent". Almost every tenants gets some free rent, the questions is are you getting all there is to get? The fact is most of my clients even get free rent on lease renewals. Yes, you read it correctly - free rent on lease renewals. Often business owners simply can't believe that free rent on a lease renewal is even possible, therefore they don't even try for it.

On a new Lease Agreement, in a renters market, the tenant should expect no less than one month free rent for every year of the lease Term (5 year Term - 5 months free). However, in a landlord's market and on the majority of lease deals a tenant can expect 3 months free rent (or less) unless they get creative. In the example above, my client received 12 months free because I had the nerve to ask for the first 18 months free (I use the word ask loosely since asking is a polite way of negotiating). Most business owners are simply afraid to ask for fear of outright rejection. Look at it this way, what have you got to lose. You have no free rent now, so any free rent they agree to give you is a bonus. In some instances you can get more free rent by walking away from the negotiating table. I recommend good communication with a give and take attitude. If you don't like negotiating get yourself a lease consultant to do it, the protection and savings will be well worth it.

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Here are some negotiating tips for maximizing your free rent period:

**Negotiate (or ask) for more than you expect to get.** Tenants frequently make the mistake of asking for what they want or expect to get. A tenant who wants three months of free rent and then requests three months of free rent is often taken back and disappointed when the landlord's counteroffer is for one month free. Negotiating isn't about throwing the knockout punch. By preparing yourself mentally to go a few rounds you will increase your chance of success. If you want five months of free rent ask for eight months. By asking for more than you expect to get you are demonstrating business savvy.

**Only request base (or minimum) rent free - not operating costs too.** Many landlords are reluctant to give tenants gross rent free. They want you to pay the common area maintenance (CAM) or operating costs from the commencement date. This is because the landlord is contributing to the CAM and wants to stop. This does not mean you can't negotiate for both the base rent and the CAM free it's just more difficult. Ultimately you should be trying to maximize the dollar value. Six months of base rent free might be worth more than 3 months gross rent free depending on your individual deal.

**Extend the lease Term.** When a landlord consents to free rent it reduces what is called the net effective rate of return. It can also diminish the realtors commission, which is why the realtor may negotiate hard for the landlord on this point. However, if you want six months of free rent simply negotiate to add six months to the Term. Rather than sign a five-year lease Term make it sixty-six months instead. This will often satisfy many landlords. The realtor will still get a full five year commission but best of all you get six months free rent.

**Spread the free rent out over time.** One tenant that I was working with did not have strong covenant, simply meaning they were financially weak. In fact, the landlord perceived substantial risk and did not want to give the tenant much of a free rent package at all for fear that the tenant would close its doors soon after opening. What we successfully negotiated was for a total of eighteen months of free base rent. The tenant received the first three months free then paid the regular rent every other month until it was all used up. This way there was less risk to the landlord plus some cash flow. Sometimes it is necessary to take months one, two, three, thirteen, fourteen and fifteen free in order to achieve the maximum free rent period. Don't hesitate to get creative when negotiating for free rent.

**Tenants who can justify why they need free rent will often get more of it.** For example, if your business is starting up in the slow season, if it takes time to draw customers, if you feed off yellow page advertising but you missed this year's book, these are all good reasons to ask for more free rent.

For lease renewals, I suggest tenants examine how much free rent the landlord is giving to new tenants just moving into the building. If new tenants are getting 3 months of free rent then why shouldn't existing tenants get 3 months of free rent on a renewal. After all, an existing tenant poses less risk than a new tenant in most cases. Landlords won't often see it this way though, which is why you need to negotiate hard on this issue if you expect to get results. You will need to diplomatically explain that it's much more cost effective for the landlord to retain an existing tenant than find a new one. If you've looked at other buildings for lease in your area free rent may have been offered by other realtors as a relocation incentive.

This is an excellent point to make with your existing landlord, but do it in a non-threatening way. Another way to negotiate for free rent is by creating Early Occupancy. Say you've agreed to a five-year Term with a commencement date being June 1st. In order to achieve five months of free rent simply start the lease commencement date five months later (November 1st), but open your business on June 1st like you planned all along. There are reasons some landlords do this readily, but others won't. Some landlords want a good tenant even if that means waiting for the rent to come in. Others need cash flow and want you paying rent right at the beginning. Even if you only get 2 more months of free rent through early occupancy it can be well worth it since the extra couple months added to the lease Term will be inconsequential.

Tenants should not have to pay any rent during the Fixturing Period. Do not consider the fixturing period to be part of the free rent period.

Always ask the realtor or landlord what free rent packages other tenants have received. I'm not saying you will always get accurate information so it pays to talk with other tenants in the building and hear how they made out. Ultimately whether you get three months or twelve months free you want the peace of mind of knowing that you got all that you could. Do your homework and don't hesitate to negotiate aggressively.

In leasing, tenants don't get what they deserve - they get what they negotiate. Good Luck!

Dale Willerton is The Lease Coach - A Lease Consultant exclusively for tenants. Willerton is author of the book NEGOTIATE YOUR COMMERCIAL LEASE OR RENEWAL and speaks at franchise shows in Canada and the US. For Dale's free CD "13 Costly Mistakes Tenants Make Negotiating Their Lease Or Renewal" call The Lease Coach 1 (800) 738-9202 Fax (780) 448-2645. Visit [www.TheLeaseCoach.com](http://www.TheLeaseCoach.com). Consulting inquiries and leasing questions welcome.

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