



CHOYCE TIPS

from Choyce Peterson, Inc. *The Corporate Tenant Specialists*

January 2006

What to say when your landlord says, "You can't do that."

Making the most of your renewal, expansion or relocation.

For businesses of any size, the lease and its related costs are critical to the success of the enterprise. In fact, your lease is likely to be the second or third largest expense of your business.

Despite this importance, most tenants negotiate a renewal and/or expansion on their own, without any objective professional input. That's music to a landlord's ears.

Experienced landlord vs. Inexperienced tenant: who wins?

Even the most successful entrepreneur or manager is at a decided disadvantage when negotiating directly with a landlord, even if it's "only" for a renewal or expansion.

The landlord and their team negotiate multiple deals a year. Most tenants will only be involved in a handful of leases in their entire career. Landlords know this and negotiate accordingly.

Tenants negotiating directly for lease provisions and concessions will often hear, "We never do that." Our advice to tenants who hear that? Walk away. Then get the competitive intelligence you need to negotiate on an even playing field.

With Choyce Peterson, landlords know that we know what they know: market conditions in their building, the local market trends, common lease provisions – and unconventional provisions as well. As tenant specialists, we elicit competitive, favorable terms for our tenant clients because landlords know we're negotiating from informed strength. And you should, too.

INSIDE: *How well does your lease take advantage of current market dynamics? Our litmus test will tell you.*

Plus: Lease clauses to insist on for any renewal or expansion.

Year-End Market Report
Commercial Real Estate
Westchester County
Fairfield County &
plus...

INSIDE:
*The Lease Clause
Litmus Test*

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Put your lease to the test.

Does your lease make the most of today's real estate market? Take our test to find out.

Plus: Lease clauses that are a "must have" in any renewal or expansion.



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- Services include:
- Lease Renewals
 - New Locations
 - Expansions
 - Portfolio Administration
 - National Representation
 - Acquisitions

Fairfield County (203) 356-9600

Westchester County (914) 422-5700

www.choycepeterson.com

The Lease Clause Litmus Test

Know where you stand in today's market – and what you should look for in any renewal, expansion or relocation

Far beyond cost per square foot, key features of your lease determine just how favorable an agreement you have.

Do you have the kind of options a business should insist on? Or is your lease a landlord's dream, and a corporate tenant's nightmare?

Test yourself on the following lease provisions to assess just how favorably your lease is structured.

Restoration. If as the tenant you have the right to make minor alterations (for example, replacing carpet in a room) without landlord's consent, score 3 points. If the landlord has the right to require you to restore the space to its original condition by giving you notice at the end of the lease, deduct 2 points.

POINTS

Default Clause. You should have 10 days following written notice of "failure to pay" before it is considered a default. If your lease has this provision, score 3 points. Add 1 point if due diligence efforts are enough to satisfy non-monetary failure to perform requirements. Deduct 2 points if the landlord is not required to give you any notice before late payment is considered a default.

Escalation. If your Operating Expense Escalation clause carves out items that would not be included in landlord's Operating Expenses (i.e., depreciation, alterations for other tenants) add 1/2 point for each carve out, up to 5 points. If you have a reasonable right to audit, score an additional 1 point. If escalations must be based on simple calculations and language to limit mistakes, score an additional 2 points.

Relocation. If your lease allows the landlord to relocate you and your space is over 2,500 square feet, deduct 5 points; if under 2,500 square feet, deduct 1 point. If the relocation clause requires that new space must be equal or better, in your reasonable judgement, regarding address, elevator exposure and buildout, add 2 points. If landlord is required to reimburse all costs including stationery and business cards, add 1 point. If landlord has the right to relocate you without giving you a strong right of consent or right to cancel, deduct 1 point.

Subletting/Assignment. Lease should permit subleasing of up to 100% of your space subject to landlord's reasonable consent. If so, score 4 points. If your landlord can recapture the space *after* you find a subtenant, deduct 2 points. If there are restrictions regarding you subleasing to other tenants in the building, deduct 2 points. If you keep at least 50% of *net* subleasing profit, add 1 point.

Option to Renew. If your lease contains an option to renew for a specific period of time, score 2 points. If it includes a rental rate that is a percentage of fair market value, score 1 more point. If the lease does not contain an option to renew, deduct 2 points.

Option to Expand. If you have a right of first refusal on contiguous space, or a right of first offer, score 4 points. If you require a definite expansion during the term of your lease and the lease specifies this, including size, timing and rate, score 2 more points. If the lease does not contain an option to expand, deduct 1 point.

How does your lease stack up?

Over 24 points: Your lease is a solid business asset and protects your interests well.

16 to 23 points: There are some gaps or lost opportunities in your lease that should be addressed the first chance you get.

Less than 16 points: Your lease is certainly "landlord-friendly." Diligence is recommended going forward to limit your downside risk regarding any change in occupancy: renewals, improvements, expansion, etc.

TOTAL

Never liked tests? Let us do it for you – FREE.

Choyce Peterson has performed this analysis – a "lease abstract" – for hundreds of area companies. We identify obligations and pinpoint opportunities for you to address in any renewal, expansion or relocation. And we provide this service free. To obtain an abstract of your lease, simply contact one of the Choyce Peterson professionals listed at right.

Contact any of the Tenant Specialists listed below

- Alan R. Peterson apeterson@choycepeterson.com
- John P. Hannigan jhannigan@choycepeterson.com
- Jeffrey P. Williams jwilliams@choycepeterson.com
- Robert J. Hopper rhopper@choycepeterson.com
- Brett A. Sherman bsherman@choycepeterson.com
- Steven S. Lash slash@choycepeterson.com
- Tim Sheehan tsheehan@choycepeterson.com

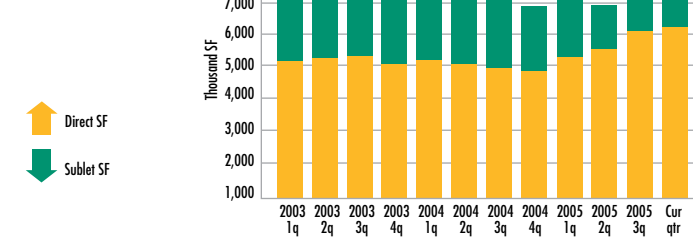
2005 YEAR-END MARKET UPDATE

Office Buildings Over 20,000 SF

Arrows Indicate Year-End 2005 Trend vs. Year-End 2004

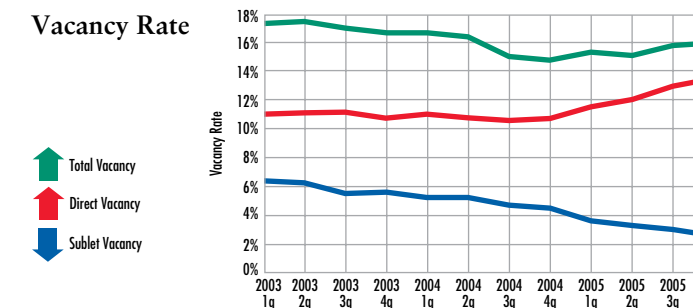
Fairfield County

Direct & Sublet Vacant SF



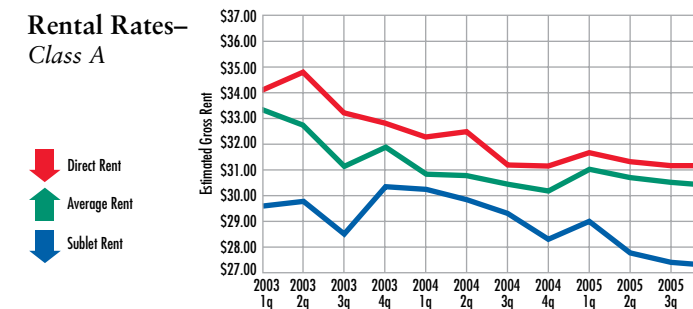
Direct vacant square feet increased approximately 1.5 million square feet since the end of 2004.

Vacancy Rate



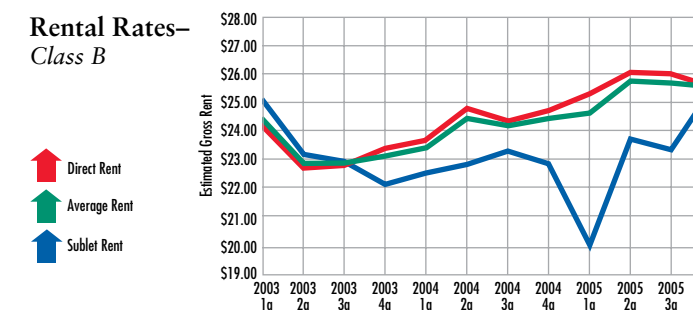
The total vacancy rate increased 1.1%, while the direct vacancy rate rose almost 3% this year to 13.3%.

Rental Rates— Class A



Despite decreases in Sublet and Direct rental rates, the average rental rate rose slightly to \$30.42 per square foot. This is due to a 750,000 square foot decrease in subleases and 1.1 Million square foot increase in available direct space.

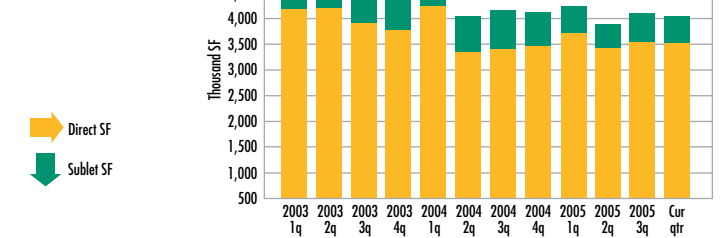
Rental Rates— Class B



Average rental rates increased \$1.12 this year, or 4.6%, to \$25.62 per square foot.

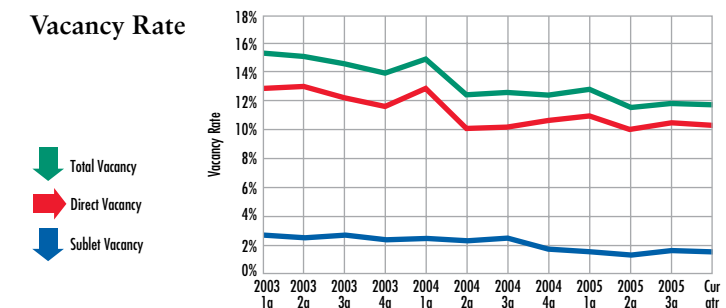
Westchester County

Direct & Sublet Vacant SF



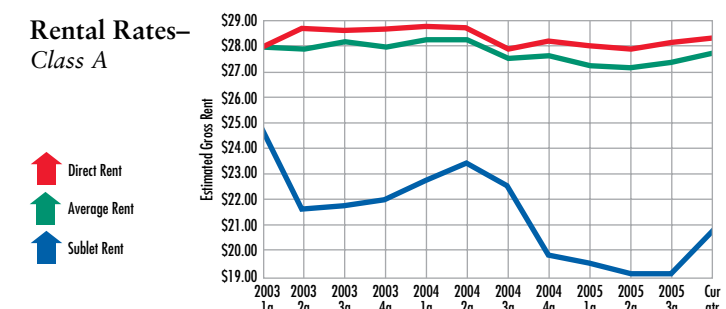
Vacant square feet remained generally constant with a slight decrease since the end of 2004.

Vacancy Rate



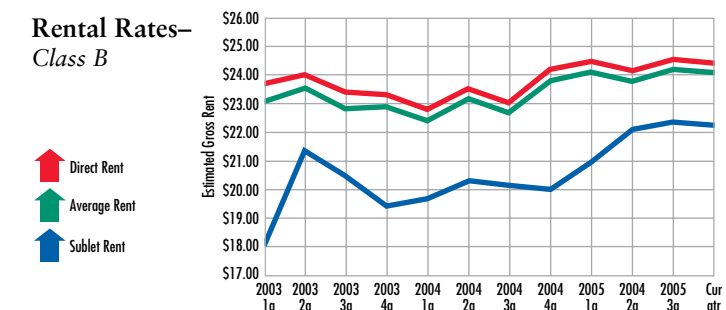
The total vacancy rate fell 2.5% this year to 11.8%.

Rental Rates— Class A



The average rental rate increased slightly since 2004 to \$27.71 per square foot.

Rental Rates— Class B



Average rental rates increased approximately \$0.21 or 1%, to \$24.04 per square foot.

Data source: CoStar Group, Inc.