

## EARLY RENEGOTIATION FOR RENTAL RATE REDUCTION WEB SITE: [WWW.MOGARCHITECTURE.COM](http://WWW.MOGARCHITECTURE.COM)

Founded more than 70 years ago, MCG has a professional staff of architects and planners in eight offices nationwide. Rankings of the top retail architectural firms nationwide in the February 2003 issue of Retail Construction Magazine place MCG Architecture as 3rd in total projects, 5th in project square footage, and 9th in 2002 billings. The firm generates approximately \$25 million in annual revenue, and its San Francisco office has 20% growth in sales year-over-year for the past five years.

### CHALLENGE

MCG signed a long-term lease at the height of the market in 1999. As a result, they were paying significantly above market rent, and failed to receive any Tenant Improvements at the time the lease was signed.

As the business was growing, MCG desired to construct additional offices for several professionals they were hiring. In addition, MCG was dissatisfied with the image their space portrayed to their clients and visitors. Having occupied the same space for over 10 years, the finishes were looking worn, especially around the reception and conference areas.

MCG's lease was not scheduled to expire for two more years, and NAI BT Commercial needed to convince the landlord that striking a deal with MCG today was preferable to waiting it out and finding a new tenant for the space when the lease expired.

### SOLUTION

After sitting down to hear about NAI BT Commercial's representation process and relevant experience, it became clear to MCG that the key to driving the best deal was to engage an office leasing specialist to facilitate the negotiations with their landlord. Using NAI BT Commercial's proprietary databases and valuable market knowledge as leverage, NAI BT Commercial was able to convince the owner that its option to relocate was credible—something MCG was unable to achieve prior to retaining NAI BT Commercial's services. The NAI BT Commercial's professionals surveyed the market for relocation alternatives that would suit the needs of MCG. NAI BT Commercial also provided cash flow comparisons analyzing MCG's options: to renew early vs. waiting until lease expiration and creating a new deal. This same scenario was also analyzed from the Landlord's perspective so that NAI BT Commercial the professionals were equally knowledgeable from both sides of the deal to allow for easier communication between the three parties involved in the deal - MCG, NAI BT Commercial and the Landlord.

### RESULTS

The NAI BT Commercial professionals were able to conduct an early lease renegotiation for MCG, in which MCG experienced a 50% reduction in their monthly rent. MCG also received a \$98,520 contribution from the landlord which provided new paint and carpet, construction of additional offices and upgrading of lighting fixtures and the reception area. In addition, NAI BT Commercial negotiated an ongoing Right of First Refusal on the adjacent mezzanine space. When this space becomes available, before finalizing a deal with a third-party, the Landlord is required to offer the same deal negotiated with that third-party to MCG, in which MCG will have the right to lease the mezzanine space or decline (this is very rare that a Landlord would agree to a true First Right of Refusal).