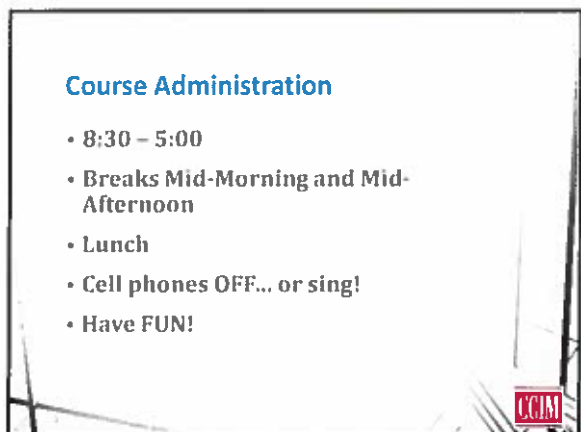



**Commercial Real Estate
Negotiations:
Getting What You Want**



Course Administration

- 8:30 – 5:00
- Breaks Mid-Morning and Mid-Afternoon
- Lunch
- Cell phones OFF... or sing!
- Have FUN!



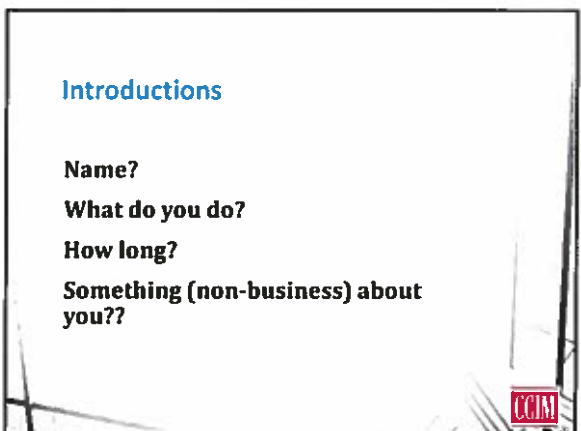

Introductions

Name?

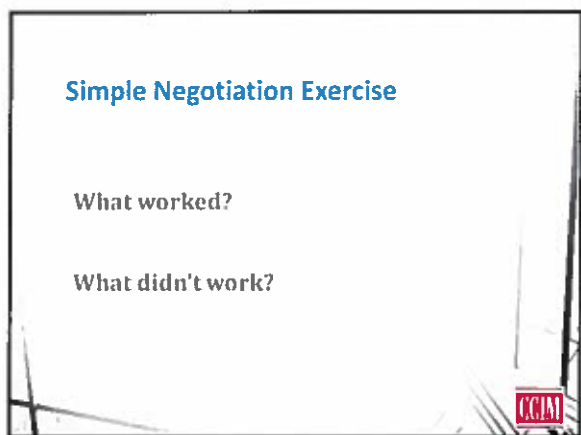
What do you do?

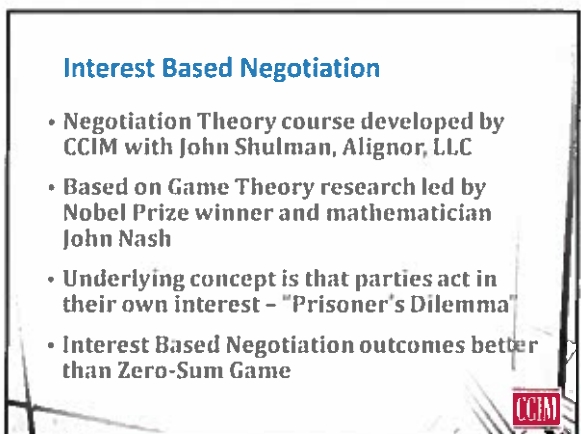
How long?

Something (non-business) about you??










Challenges

- Clients have grown more sophisticated and demanding
- Deals frequently involve multiple players and increasing complexity
- Non-monetary issues, which are often harder to measure and track, can be as important as obvious financial concerns
- Difficult negotiators or situations can jeopardize important deals



Goals for this workshop

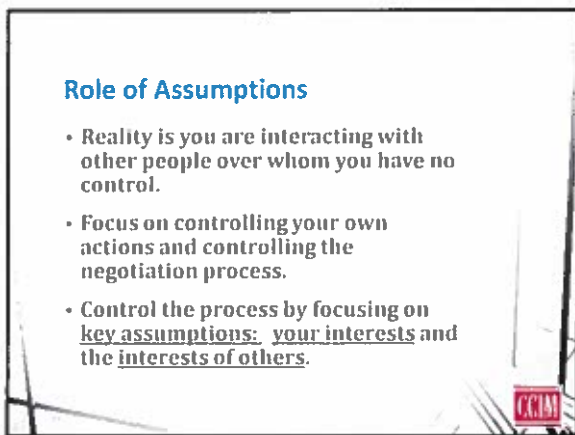
Learn and apply a proven methodology for implementing negotiation best practices	Understand how to get the best deal while maintaining the relationship
Apply best practices consistently by using a disciplined and strategic process that focuses on interests and collaborative problem-solving	Handle difficult people and situations

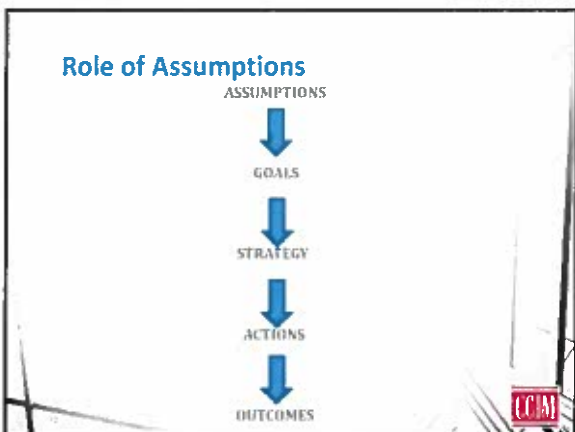


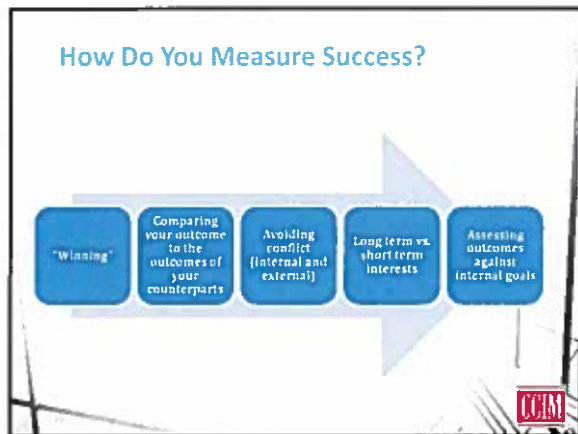
Interest-Based Negotiation

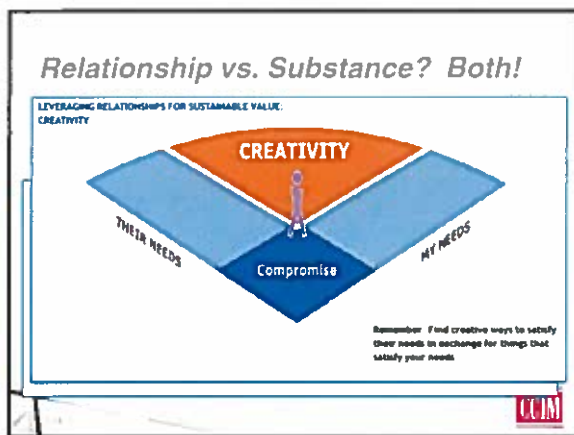












Competition vs. Collaboration

- Competition is adversarial
- Emphasizes positional "bargaining"
- Uses "tricks" to defeat
- Debate requires parties to defend position until the other gives up, compromises, or deal fails



Competition vs. Collaboration

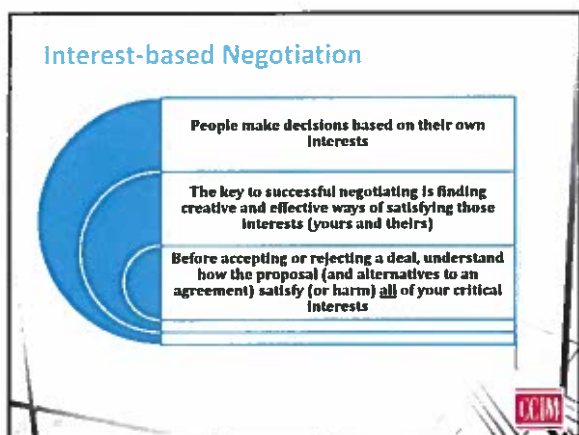
- Collaboration or Interest Based Negotiation
- Client focused
- Needs based
- Leads to most effective substantive outcomes
- Successful at developing long term relationships
- Requires deep thinking to be a successful negotiator

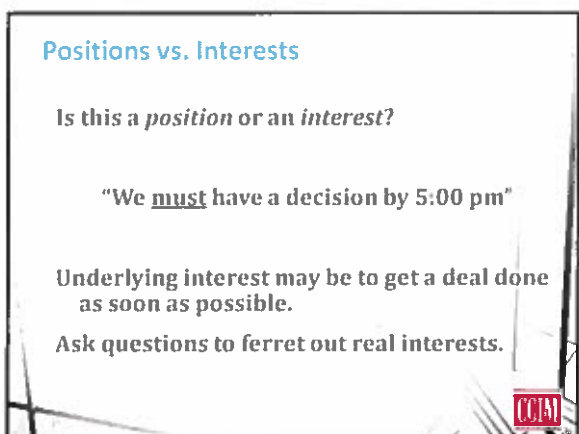


Break









Positions vs. Interests

Interests = needs or wants of a stakeholder

Interests are different from positions

- Interests may be related to positions (but not always)
- Unlike positions, interests can often be satisfied in multiple, different ways

Uncover the interests of others

- Ask questions
- Positions often reveal underlying interests



The Three Step Process

- 1) Who is involved and what do they need?
- 2) What can we do to get them what they need (so we can get what we want)?
- 3) What happens if there is no resolution?

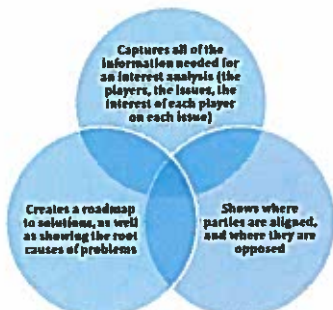


Step 1

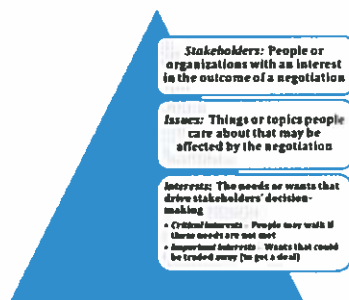
Who is involved and what do they need?



Step 1: Stakeholder Interest Analysis



Key Definitions



Interests = Answers to this Question:

On the issue of _____, what does
[Issue]

_____ need?
[Stakeholder]

Answer: [Interest]

Sample Interest Chart

	Lee	Mayor	Glorious	Glen Rep
Public Perception of Project	POSITIVE	POSITIVE	POSITIVE	POSITIVE
Valley Station Development	UNKNOWN	UNKNOWN	GET VALUE	GET VALUE
Mayor Reputation	SUPPORT	MANEAGE	NA	NA
Valley Cases	NOT INTEREST	CONTROL	NOT INTEREST	COMMITMENT
Road Maintenance	BROADEN APP	LOW COST	ASIDE	COMMITMENT
History of Mayor and Committee	MANEAGE	EXTRACT VALUE	NA	NA
Project Infrastructure Support	MANEAGE	LOW COST	MANEAGE	COMMITMENT
Jobs for Valley Residents	GUARANTEE	GET CREDIT	FLEXIBILITY	FLEXIBILITY
Price for the Property	FAIR	MANEAGE	MANEAGE	MANEAGE
Property Tax Abatement	MANEAGE	MANEAGE	MANEAGE	MANEAGE

Present a good point, no negative

Color: Blue

Orange

Yellow

Good Style

Good

Bad

Bad

Relationship to Anchor

Some Interest

Copy to Interest

Interest Interest

Relationship Building – Talking About Interests

- Focus on needs
- Solicit interests directly from stakeholders (listen)
- Confirm, review and update analysis through discussions and other contacts




Types of Interests

- Job performance
- Value to company
- Revenue

Professional Interests

- Family concerns
- Hobbies
- Food

Personal Interests



Negotiation Role-Play

Silk Stocking LLC is a respected law firm and the largest tenant in The Generic Building, a Class A, multi-tenant office building on the best corner in downtown Steel City.

Two years remain on their existing lease. They are interested in making substantial changes to the way they use office space and are considering a move to another building or renewing in place and making renovations.

The owner of The Generic Building is Bob Skyscraper, a local developer with a reputation for being "tight fisted" and a tough customer. He and Manley Lawyer, the Managing Partner of Silk Stocking are golfing buddies and members of the same country club.



Negotiation Role-Play

Silk Stocking has hired an out of town tenant representative, Stud Andrews, to assist in the lease negotiations and show the small town folks in Steel City how the pros do it in the Next Big City. Bob Skyscraper and Stud have met before and have a healthy distaste for each other. A summary of the relationship between the parties is included in your packet.

Our task is to negotiate a lease renewal for Silk Stocking, LLC in The Generic Building using the Interest Based Negotiation process to ensure the most successful outcome for both parties.



Negotiation Role Play

Read Case Study Set Up



The Players*

Landlord: Bob Skyscraper
 Tenant: Manley Lawyer, Managing Partner, Silk Stocking, LLC
 Tenant Rep: Stud Andrews
 Landlord Rep: Magnolia ("Maggie") Blossom

*may be others!



Negotiation Role Play

Meet and Greet session



Sample Interest Chart

	Bob Skyscraper	Silk Stocking LLC
Bob's relationship with Manley	GOOD	GOOD
Timing of new lease	LEVERAGE	ASAP
Need for space	MAXIMIZE	OPTIMIZE
Tenant Improvement Cost	SILK STOCKING PAYS	BOB PAYS
Rental Rate	MAXIMIZE	MINIMIZE
Tenant Rep Fee	MINIMIZE	N/A
Hassle Factor	MINIMIZE	EXPLOIT
Rent During Renovations	MAINTAIN	MINIMIZE
Others ????		



Discussion Topics:

- How is the approach in Step 1 different from or similar to how you usually prepare for negotiations?
- What do you see as the benefit, if any, of focusing on the stakeholders' core needs?
- Do you find it easy or difficult to figure out other people's interests? What makes it easy or difficult?



Lunch



Creating Negotiation Options – Step 2 of the Three-Step Process



Step 2: Creating Negotiation Options

What can we do to get them what they need?



Step 2: Possible Actions

Targeted
Brainstorming -- Find
Ways to Satisfy
Interests of All
Stakeholders



Evaluate Possible
Actions
Look at EFFECTS of
actions on
stakeholder interests



Key Definition

Actions:
Possible options
for satisfying
interests
through a
negotiated
agreement



Negotiation Role Play

Silk Stocking's Existing Lease

- Lease size: 30,000 sf of rentable space
- Lease term: Two years remaining
- Current base rent: \$18.00 per sf per year with no escalations
- Current Operating Expenses: \$0.25 per sf per year
- Tenant's Operating Expense Base: \$6.00 per sf per year
- Operating Expenses are expected to increase 3 percent annually.
- Tenant in place since 1982.
- Major renovations necessary to adapt to current usage requirements.

Where to start???

Estimate the present value of the landlord's current position with remaining lease payments

Develop a "re-leasing" scenario, and calculate the net present value of that cash flow

Prepare a preliminary proposal for a renewed lease agreement and calculate the net present value of that cash flow.

Use the difference in the numbers to determine the amount of "wiggle room" the landlord has to make a deal.

Bob Skyscraper -- Today

Existing Lease between Bob Skyscraper and Silk Stocking, LLC

30,000 RSF; \$18.00/RSF;
Operating Expenses NOW \$8.00/rsf; DE Stop \$6.00. Expect 3% annual escalation.

Years Remaining	Base Rent	Operating Expense Base Year	Net Operating Income
1	\$ 540,000.00	\$ 180,000.00	\$ 360,000.00
2	\$ 540,000.00	\$ 180,000.00	\$ 360,000.00



Bob Skyscraper -- Today

EOY	Cash Flows	+	Sale Proceeds
0			
1	\$360,000	+	
2	\$360,000	+	
3		+	
4		+	
5		+	
6		+	
7		+	
8		+	
9		+	
10		+	
NPV Discount Rate			8.00%
Net Present Value			\$841,876



What if it takes 3 years to re-lease?

Bob Skyscraper - Worst Case -- 3 year lease up

	TI COST & LEASING FEES	BASE RENT	OPER. EXPENSES	BASE YEAR	NOI
EOY 0					
EOY 1			\$ 247,500		\$ (247,500)
EOY 2			\$ 254,925		\$ (254,925)
EOY 3	\$ 971,400		\$ 262,573		\$ (1,233,973)
EOY 4		\$ 510,000	\$ 270,450	\$ 270,450	\$ 239,550
EOY 5		\$ 510,000	\$ 278,563	\$ 270,450	\$ 239,550
EOY 6		\$ 510,000	\$ 286,920	\$ 270,450	\$ 239,550
EOY 7		\$ 540,000	\$ 295,328	\$ 270,450	\$ 269,550
EOY 8		\$ 540,000	\$ 304,394	\$ 270,450	\$ 269,550
EOY 9		\$ 540,000	\$ 313,526	\$ 270,450	\$ 269,550
EOY 10		\$ 540,000	\$ 322,931	\$ 270,450	\$ 269,550



What if it takes 3 years to re-lease?

EOY	Cash Flows		Sale Proceeds
0			
1	(\$247,500)	+	
2	(\$254,925)	+	
3	(\$1,233,973)	+	
4	\$239,500	+	
5	\$239,500	+	
6	\$239,500	+	
7	\$269,550	+	
8	\$269,550	+	
9	\$269,550	+	
10	\$269,550	+	
NPV Discount Rate			8.00%
Net Present Value			(\$374,721)



Bob's Initial Proposal to Silk Stocking, LLC

Lease size: 40,000 sf

Base Rent: \$20 per sf per year, with 2% annual escalation

Expected Tenant Improvement Cost: \$40 per sf

Owner's Tenant Improvement Allowance: \$30 per sf

Owner will allow tenant to use a vacant space (rent free) within the building to facilitate operations while renovations are in progress.

Tenant will pay its own architectural fees and costs to move within the building.



Bob's Initial Proposal to Silk Stocking, LLC

Bob Skyscraper 1st Proposal to Silk Stocking
Assumptions:

	LEASED RSP 40,000	OPERATING EXPENSES PER RSP 8.25	OE ESCALATION PER YR 3%	TENANT IMPROVEMENT COST/RSP 30	LEASING FEES 6%
	TI COST & LEASING FEES \$1,725,387		BASE RENT	BASE YEAR	NOI
EOY 0			\$ 800,000	\$ 330,000	\$ 470,000
EOY 1			\$ 816,000	\$ 330,000	\$ 486,000
EOY 2			\$ 832,320	\$ 330,000	\$ 502,320
EOY 3			\$ 848,966	\$ 330,000	\$ 518,966
EOY 4			\$ 865,946	\$ 330,000	\$ 535,946
EOY 5			\$ 883,263	\$ 330,000	\$ 553,263
EOY 6			\$ 900,930	\$ 330,000	\$ 570,930
EOY 7			\$ 918,949	\$ 330,000	\$ 588,949
EOY 8			\$ 937,328	\$ 330,000	\$ 607,328
EOY 9			\$ 956,074	\$ 330,000	\$ 626,074
EOY 10					



Bob's Initial Proposal to Silk Stocking, LLC

0	(\$1,725,587)	
1	\$470,000	+
2	\$488,000	+
3	\$502,320	+
4	\$518,966	+
5	\$535,846	+
6	\$553,265	+
7	\$570,930	+
8	\$588,849	+
9	\$607,328	+
10	\$626,074	+
NPV Discount Rate		8.00%
Net Present Value		\$1,865,016



Bob's "Wiggle Room"

PV of Initial Proposal to Silk Stocking	\$	1,865,016
Less: PV of Bob's Worst Case	\$	(374,721)
Less: PV of Existing Lease with 2 yrs remaining	\$	(641,975)
PV of Bob's "Wiggle Room:	\$	848,320



Silk Stocking, LLC's Perspective – Initial Proposal

Bob Skyscraper 1st Proposal to Silk Stocking

Assumptions:

LEASED SQT	OPERATING EXP PER SQT	DEPRECIATION PER SQT	CR BASE PER SQT	AMOUNT	CR BASE PER SQT	IMPROVEMENT COST PER SQT	LEASING FEE	TENANT SHARE OF TENANT IMPROVEMENT COST	ARCHITECTURAL FEE	MOVING EXPENSES
40,000	6.25	0%	\$	0.25	\$	0%	\$	1.0	\$	2
TOTAL ARCH FEE, MOVING EXP										
BOY 0	\$	120,000								
BOY 1	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 2	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 3	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 4	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 5	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 6	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 7	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 8	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 9	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000
BOY 10	\$	100,000	\$	100,000	\$	100,000	\$	100,000	\$	100,000



Silk Stocking, LLC's Perspective – Initial Proposal

EOY	Cash Flows	+	Sale Proceeds
0	\$520,000		
1	\$800,000	+	
2	\$825,900	+	
3	\$852,417	+	
4	\$879,566	+	
5	\$907,364	+	
6	\$935,825	+	
7	\$964,967	+	
8	\$994,807	+	
9	\$1,025,362	+	
10	\$1,056,649	+	
NPV Discount Rate			6.00%
Net Present Value			\$7,222,774



Silk Stocking, LLC's Existing Lease

Silk Stocking's Perspective -- remaining two years

Years Remaining	Base Rent	Operating Expense Pass Thru	Net Cost of Occupancy
1	\$ 540,000.00	\$ 67,500.00	\$ 607,500.00
2	\$ 540,000.00	\$ 75,000.00	\$ 615,000.00



Silk Stocking, LLC's Existing Lease

EOY	Cash Flows	+	Sale Proceeds
0			
1	(\$507,500)	+	
2	(\$615,000)	+	
3		+	
4		+	
5		+	
6		+	
7		+	
8		+	
9		+	
10		+	
NPV Discount Rate			6.00%
Net Present Value			(\$1,120,461)
Internal Rate of Return			



Silk Stocking's Net Cost of Occupancy of Initial Proposal

PV of Bob's 1st Proposal Scenario	\$7,222,774
Less: PV Cost of Occupancy Remaining Two Years	<u>\$ (1,120,461)</u>
Net PV Cost of Occupancy of New Deal Today	<u>\$6,102,313</u>



Here's the Problem!

Can Stud and Maggie reach a mutually beneficial lease renewal agreement?

\$6,102,313

\$848,320



Negotiation Role-Play

Preliminary list of possible Action Items



Brainstorm List of Action Items

List of Possible Actions

<i>Address</i>	<i>Bus</i>	<i>SR LIC</i>	<i>Comments</i>
<i>Neighborhood out of conventional perceptions with Worley and Lind</i>			
<i>Lopez in regularly with Sims and Mahony</i>			
<i>Bob owns SS 11C in pop Lind's line</i>			
<i>Reuben went to disturbance in neighborhood/neighborly</i>			
<i>Wanda and Russa from effective team - sup 2 years from date</i>			
<i>Jim says for all FL Missing Expenses and deductible limit</i>			
<i>SA 11C peers substituted for an additional year</i>			
<i>SS 11C goes from road during construction</i>			
<i>Expenses across jurisdictions</i>			
<i>Monthly current market costs and fees a service</i>			
<i>Emergency service during holiday [nd]</i>			

Negotiation Role Play

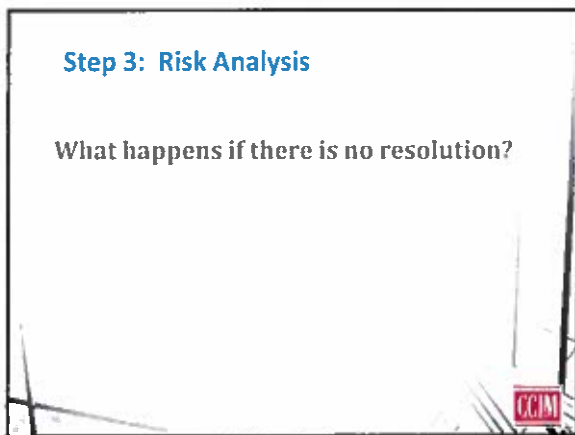
In your groups, develop an Action Plan

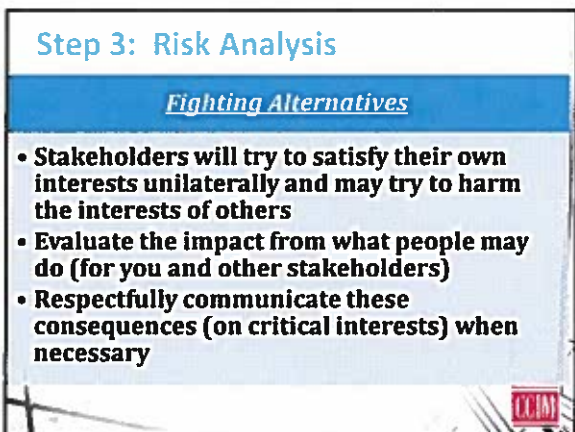
Prepare for meeting with the other party to go over possible terms of a proposal

Discussion Topics:

- How is this approach in Step 2 different from or similar to how you usually prepare for negotiations?
- Do you usually start with Step 1 or jump straight to Step 2?
- Did you find Step 2 easier or more difficult than Step 1?
- Do you need to revise your Action Plan to be able to reach an agreement?







Fighting Alternatives


Consequences that may occur if there is no agreement



**Consequences of No Deal:
Understand and Explain**


Define your bottom line

Help stakeholders fully appreciate costs of fighting alternatives



**Creating Proposals:
How to Satisfy Interests**

- Develop proposals to address the particular needs of all stakeholders
- Consider packages of actions, including actions that may in isolation be unattractive
- Weigh possible Actions against Fighting Alternatives and defined Bottom Line
- Create talking points that link proposal ideas to interests satisfied
- Negotiate package of Actions or choose not to do the deal



Negotiation Role Play

Develop Fighting Alternatives



Identify Fighting Alternatives

Fighting Alternative	Stakeholder
SS, LLC moves to new location now and finds subtenant for space in Generic Building	SS, LLC
Disband Firm	SS, LLC
Move to suburbs - no parking costs	SS, LLC
Refuse to deal with Stud	Bob
Bob S refuse to approve sublease	Bob
Turn keys over to lender	Bob
Trash talk Bob at Country Club	SS, LLC
Trash talk Monkey at Country Club	Bob
Move legal work to Big Notshel Firm	Bob



Prepare to Negotiate

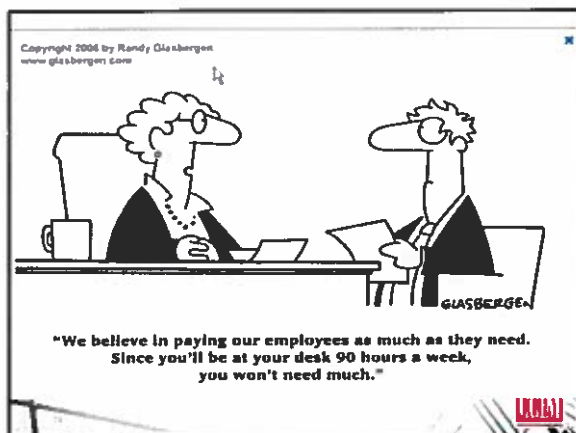


Meeting #3

In your group, discuss possible Action Items and understand Fighting Alternatives – yours AND theirs!

Meet with the other side and talk about items you may include in a proposal and gauge feedback.





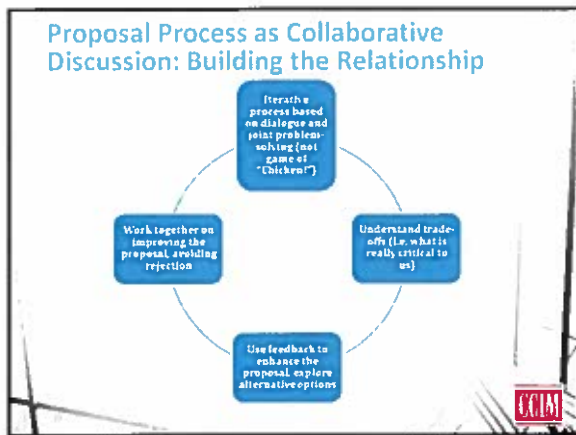
Formulating Proposals and Communicating Offers



When Talks Get Tense....



Proposal Process as Collaborative Discussion: Building the Relationship



Securing Commitment



Handling Price Negotiations



- Put price in broader context
- Look to other stakeholders
- Present the whole package
- Warn of consequences, if necessary
- Reduce your package to meet the lower price, as a last resort

CCIM

Dealing with Tactics

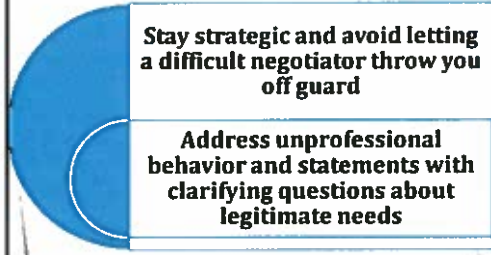


Tactics are:
Actions, phrases, etc.
Intended to cause you to be less strategic

Challenge:
Handling tactics to achieve a good outcome

CCIM

Handling Difficult People



- Stay strategic and avoid letting a difficult negotiator throw you off guard
- Address unprofessional behavior and statements with clarifying questions about legitimate needs

CCIM

Applying Interest-based Negotiating to Internal Discussions

- Build the internal relationship
- Understand and solicit interests
- Brainstorm ideas to address particular needs
- Refine talking points and proposals



Negotiation Role Play

Negotiate the deal!



Summary: Three Step Process

1) Who is involved and what do they need?



2) What can we do to get them what they need (so we can get what we want)?



3) What happens if there is no resolution?



Interest Based Negotiation Works!

- When you understand the interests of others, you can anticipate what they will do in almost any situation to try to satisfy their interests that you have identified.
- The key to success is taking the time to complete a disciplined assessment of all the stakeholders and all of their critical interests **BEFORE** developing a proposal and entering into discussion.



Getting What You Want: Commercial Real Estate Negotiations



Crane
Real Estate Training