

PROPERTY MANAGEMENT

Quarterly

Perspective

Tips to help avoid the ripple effect of lost tenants

This may sound obvious, but during these uncertain times, it's more important than ever to focus on tenant retention. Competition to attract small, medium and large businesses to vacant office and industrial space is easy to find. And in the months ahead, these vacancies may become even more prevalent as companies continue or expand the concept of employees working from home. Perhaps they never will see the same value in signing a long-term or even a short-term lease. Space use may be totally redefined.

As a property owner or manager, you should be proactive with the steps you're taking to highlight your commercial space as an added value to your tenants' business needs. It's truly about their needs. Not ours. This is not the time to implement drastic cost-saving measures. Rather, it's a good time to show that you're willing to invest in your tenants' business address. Penny-wise/pound-foolish thinking could result in big losses if your property loses its appeal and functionality and the businesses that occupy your building start to look for cheaper, better and more reliable value elsewhere.

Keep in mind that the best new tenants are the tenants you have already.

Some of the things you stand to lose with every lost tenant include:



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■ Lost cash flow.

For every tenant lost, there is a significant multiplier value effect on net income lost, due to cap rates. For example, if the cap rate is 6.5%, you'll be losing \$15.38 in value for every dollar lost in net operating income. That's a pretty big hit if a tenant decides to walk away.

■ **Lost time.** The time it takes to locate, attract and retain a new tenant is very significant. The legwork alone of identifying and courting new business to your building is substantial, and that's only the beginning. If you're fortunate to find a credible replacement to fill your vacant space, the clock keeps running as you work on lease terms, space build-out and the process of moving them in.

■ **Lost reputation.** This is a relatively small market with a pool of brokers who have great knowledge and understanding of most Class A, B and C properties in the metro area. If your building is losing tenants for whatever reason, it won't take long for it to develop a bad reputation in the market of that of a property to steer clear. Your property also could become a target for brokers who are recruiting

businesses for their listings or who simply want a new tenant representation. Without the advocates you need to earn showings and maintain your property's position in the market as a good option for companies to lease space in, your property will suffer greatly.

■ **Lost money.** Not only are you going to lose cash flow and property value for a lost tenant, you'll also lose current cash flow. The costs associated with marketing, outreach efforts, build outs, commissions and overall downtime with an idle space add up very quickly.

Before lost tenants become an item of concern and a drain on your income, there are some important things that you can do proactively and consistently.

■ **Invest.** Don't pinch pennies when it comes to maintaining the cosmetics and infrastructure of your property. Keep a spreadsheet of the items that will need to be regularly maintained and periodically replaced. Use a proven "usable life" schedule for rooftops, parking lots, lighting, carpeting, paint, lighting, etc., that contribute to your building's reputation and the satisfaction of your tenants. By adding to an annual reserve, you'll be able to plan ahead with minimal surprises and have the budgeted funds for improvements.

■ **Pay attention to small details.** Take a look at your building, not only from your own perspective or

even just your tenants' perspective, but from a 360-degree perspective. Consider even the smallest of details that could have a big effect on your tenants' overall comfort and assessment of your building. For example, large temperature swings are common in Denver, so south- and west-facing spaces should be equipped with proper heating, ventilation and air-conditioning controls. A building automation system might allow you to react quickly to infrastructure issues. It's never a bad idea to recruit the services of an engineer or architect to talk to in this regard. Stay away from "order taking" managers, and find the best solutions possible through thoughtful advisers.

■ **Communicate.** Be sure that your tenants are aware of the time and attention you're dedicating to your property and all that's being done to not only maintain it but make improvements that will benefit them personally and their businesses. Additionally, take the time to ask your tenants what they believe can be improved via surveys that provide rankings based on relative importance. If you do lose a tenant, ask them to take part in an exit interview so that you're fully aware of what may be a "quiet" but growing problem. Regular and open communication can help you to solve problems before they create vacancies in your building and a hole in your wallet. ▲