

The evolution of tenant representation

How to benefit by having a real estate advocate in your corner **Interviewed by Leslie Stevens-Huffman**

The commercial real estate industry has a dirty little secret, and it's called conflict of interest.

We see the familiar "for lease" signs on buildings, and understand that those agents are working for the property owner. But when you are a CEO looking for a new building, things get murky. The conflicts are obvious when your agent also represents the building owner. But what about when the conflict is more subtle, or when you don't find out?

Enter the tenant representative, who forsakes all landlord allegiances to represent only the tenant in commercial real estate transactions. Tenant representation has taken root in corporate America, where space users seek out tenant-only brokers and tenant-only brokerage firms have grown in response to this demand.

"We have divided the industry in half," says John Jarvis, principal and senior vice president with Irving Hughes. "Brokers have to choose between representing landlords or tenants. The days of one agent doing both are gone."

Smart Business spoke with Jarvis about what CEOs should know about engaging a tenant representative and how to benefit by having one.

What is tenant representation?

Tenant representatives are commercial real estate brokers who work exclusively for the tenant, or 'space user,' and never the building owner. 'Tenant reps' developed in response to the conflicts of interest that are rife in the industry. They are now a universally embraced, specialized sector of commercial brokerage, with a broader range of services focused on the tenants' unique needs such as space programming, construction management, lease renewal consulting, site search, financial analysis and strategic negotiations.

Why should a CEO care if his broker is a tenant rep?

There is a very real risk of working with a partner who has blatant conflicts of interest. CEOs are sensitive to the issue of



John Jarvis
Principal, senior vice president
Irving Hughes

conflicts, and investment banking is a perfect example. As the CEO, you know when you are talking with a promoter, and you aren't going to rely on him for business advice. Commercial real estate is exactly the same, and the landlord agents are the promoters.

I started in this industry as a traditional landlord's broker 20 years ago, before the growth of tenant representation. I was given listings and told to go find tenants to fill the space. The objective was to get the buildings filled up at the highest rents, so that we could sell the properties as leased investments for the maximum possible price. But in the process of getting to know the tenants that would fill these buildings, I became aware of these insidious conflicts, and I've been a tenant representative since 1993.

How has tenant representation changed the industry?

In the old model, the landlords and their brokers held all the cards. The tenants were merely a means to an end. With the advent of tenant representation, the industry is waking up to the reality that the tenants actually hold all the cards, because the tenants pay the rent. In truth,

landlords are utterly dependent on the rent tenants pay as their sole source of income.

The problem is that many tenants don't realize they hold all the cards, and those that do understand aren't always sure of the best way to play that winning hand.

What kind of savings can CEOs expect by using a tenant representative?

It is significant. For most companies, real estate is the second-largest expense after payroll, and every dollar we save goes right to the bottom line. But it isn't just about the hard dollar savings. We are also mitigating risk and negotiating flexibility into our transactions, which can be extremely valuable.

Landlords will always look for the highest possible rent for the longest possible guaranteed duration. Tenants typically want the lowest possible rent and the greatest lease flexibility. So we get creative, develop our leverage, and negotiate solutions that work for our clients.

Is there resistance to tenant representation from the old-guard?

Absolutely there is. From the landlord's perspective, we are educating customers and helping those customers to develop and use their leverage, resulting in lower rents, greater lease flexibility and more tenant-oriented protections and concessions. You can bet the landlord will try and keep us out of the mix. Also from the traditional brokers' perspective, we are calling attention to their Achilles' heel, the dual-agency conflict of interest when they try and represent tenants, and it's an argument they can't win.

JOHN JARVIS is principal and senior vice president at Irving Hughes. Reach him at johnj@irvinghughes.com or (619) 238-8154. Visit www.irvinghughes.com for more information.

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