



Working with Commercial Clients

‘Commercial Real Estate’ series — www.commercial-real-estate.net.au

Asking the right questions at the early stage of connecting with clients will help you understand them and what they need. Every client will have a different focus and need. Consider these alternatives:

- They may be long term holders of the property
- They may want to dispose of the property sooner rather than later
- They may have a need to fix the tenancy profile
- They may need a new tenant
- They may need help with the leases on the property
- They may want more property
- They may want to re-develop
- They may have a structure of property ownership that needs adjustment

The list is endless; however your skills must be broad enough to understand what the client wants and how you can help them. There are many commercial real estate people around who think they know all the right things, and enough to help every client that comes their way. The reality is just the opposite, in that good commercial people are few and far between and the corresponding knowledge and skills similarly rare. Good commercial real estate people understand how to:

- Find good property for a client
- Match the property to its best use

- Optimise the lease for the income opportunity
- Find and negotiate with a good tenant for the best landlord deal
- Close the deal with efficiency and timeliness
- Structure leases for growth and property changes
- Identify the right time to sell
- Identify the right time to buy

These are real skills. They can make you stand well above others in your industry.

This then suggests that you can easily be better than the opposition or competition that you are up against, by simply expanding your skills with a constant focus on sales, leasing, and property management enhancements for the owner of the property. Most complex and detailed properties need professional skill in this regard, and most property owners do not have that skill. Most property owners do not have an intimate awareness of the property market in your region. This is also a great opportunity for you as a commercial real estate agent to specialise.

Every property is a fine balance of:

- Location
- Tenant placement
- Lease structure and profile
- Property usage
- Finance
- Timing of changes
- Capital and rental growth

Somewhere in all of this is the tenant. This matter of the tenant is highly relevant when you are dealing with a property that is an investment rather than used for owner occupation. So let's look at tenancy mix as a topic that sits firmly in the performance of an investment property.

Tenancy mix is a balance

Tenancy mix is the fine art of optimising tenants with each other and their fuller relationship to the property. The issues of tenancy mix are of greater relevance and concern in retail property. This is because the retail property usually features a greater number of tenants in the one location. Those tenants operate from a base of selling product or services, and the success of that is supported from the retail premises or shopping centre. The rents in shopping centres are higher than office and industrial premises for all types of reasons but one main reason is the promotional profile of the property. In itself a retail property is or should be exposed and promoted by the landlord to the community for the opportunity that customers will bring the tenants by way of sales, and the owner by way of rent. This then illustrates a significant balance between landlord, customers, sales, tenants, and rent. The landlord that respects that equation will be successful in owning the property and making it grow in income and capital value. For the balance of this discussion we will focus on 'retail' given that tenancy mix is most important and relevant in that type of property.

The landlord that works towards the improvement of the property for better community profile and integration is on the right track. Some less experienced landlords will spend little on their retail property thinking that the sales will come regardless. Properties owned by such landlords are always on a downwards spiral and are usually distressed sales in the future because other properties have taken over the customers and market share.

The function and interaction of the tenants between each other and the retail property therefore becomes critical to both their success and that of the landlord. That is most particularly the matter of tenancy mix.

When a retail tenant is successful, the landlord is then in a better position to charge and recover rental. When a property and tenant mix is really well done, it underpins the rental and can even enhance the rental. For this reason, the application of a good tenancy mix is essential to the performance of the investment property.

What is tenancy mix about?

Leasing and tenant mix is not simply a matter of reviewing the information about a property and going to work. **Understanding owners and the factors that motivate them is at least 50% of the transaction. Knowing the community and their needs is the other 50% part of the equation.** A successful tenancy mix is largely driven from the balance of the tenant placement to satisfy and interact with the customers that visit the property.

Getting to know the client

For now let's focus on the owner of the property and the basic facts that you need to know when they first approach you to help them with the property and the tenancy mix within it. Use key questions to gather the raw data about your client and their needs. While listening carefully to the owners' instructions endeavour to discover facts like these:

- How long the owners have owned the property?
- How did they acquire it?
- What is their current long term thinking about the investment?
- What other properties do they own?
- Are they entrepreneurs?
- Are they conservative?
- Are they cautious?
- Do they want to get the last dollar out of the property or are they relatively easy going? (Remember, you can be successful in real estate with both styles of personality).
- How aware of the market are the owners?
- Do they have the latest information?

- Do they know more than you?
- Have they worked with tenants before and in what way?
- Do they understand the types of leases and rental that apply in current lease transactions?
- What property experience do they have and particularly in retail property where tenancies mix is a big issue effecting performance of the asset?

Without trying to pry too much, it is also handy to know if the property is mortgaged and producing income, on which the owners live, or if it forms part of a portfolio, or if it is in fact servicing a mortgage debt in relation to other investments.

In closing this article, we suggest you use these questions listed above (suitably reframed) as a way of questioning the client when you first meet them. You will then know the level on which you can talk to them and help them. You will know the sophistication of the client and if you can match that profile. If you cannot match the profile, then find someone in your office who can.

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