

## White Paper

### Changing Market Dynamics Revive Interest Over Conflicts Tenants Prompted to Protect their Interests, Question Dual Representation, and Cut Costs

Companies are always looking for ways to improve their bottom line, whatever the economic climate. And since real estate is their number-two operating cost (after labor), corporations are taking a hard look at their options. Companies are also considering the changing dynamics in the real estate industry, including the trend of consolidation among service providers. Indeed, more corporations are seeking creative, cost-effective solutions—and are questioning whether their real estate broker has their best interests at heart.

In regard to the consolidation of commercial real estate firms, the merger between Jones Lang LaSalle and The Staubach Company in particular raises important issues. Mergers of this sort are not surprising, since companies like Staubach, previously the nation's largest tenant representative firm, are trying to become bigger and more profitable. But what's good for a brokerage's bottom line isn't necessarily good for their corporate clients, who have lost a tenant advocate to protect their interests.

Why is pure tenant representation so important? Because you can't have it both ways. Some traditional real estate firms representing landlords have a separate division that is supposed to represent tenants; other firms say they integrate tenant representation within the larger group. Either way, an inherent conflict of interest results if brokers represent two masters in the same market. When this happens, brokers may lose their objectivity, and the interests of tenants may be compromised.

Even before consolidations started making headlines, corporate America started practicing more due diligence in outsourced relationships in the wake of Sarbanes-Oxley. As new business reforms were enacted in response to corporate scandals, CFOs began to assume more oversight for real estate decisions and become more mindful of sweetheart deals and murky relationships. In fact, senior management in all industries has become more sensitive to even the perception of impropriety.

With perspectives changing, the Watkins Research Group surveyed corporate real estate executives (CREs) to determine preferred business models. They found that 70% of CREs surveyed cited "no conflict of interest" as a significant criterion in selecting a real estate service provider.

#### Doing the Math

In addition to ethical considerations, let's take a closer look at the financial picture.

The largest real estate service providers derive about three-quarters of their revenue from owners and investors, only one-quarter from space occupiers. It's only natural that they try to maximize the terms of each transaction and fortify long-term relationships with landlords, knowing they may never have to deal with the tenant again. In contrast, tenant firms can more objectively push the landlord for better terms and not worry about burning bridges.

In standard commercial real estate transactions, conflicts are often commonplace. But sometimes, hidden agendas are less apparent—for instance, leaseback

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arrangements may tempt brokers to cross the line in an effort to earn more commission or win additional business from the investors.

Conflicts are not only pervasive; they can also be very costly for companies seeking the best terms and conditions. Today, the stakes are even higher with fewer tenant advocates and more potential for conflicts. With independent firms, companies can generally bank on greater objectivity, more personalization, and more efficient communication through single points of contact.

## Challenging the Old School

So why haven't tenant representation firms gained a stronger foothold in the marketplace? As we've seen, landlord clients tend to provide greater revenue to listing brokers than tenants do; accordingly, brokers often prefer to work with traditional brokerages. Not surprisingly, they are motivated to make fast commissions for transactions and enhance their future listing opportunities.

In contrast, in addition to handling transactions, tenant advisory firms go "beyond the deal," focusing on start-to-finish corporate services like strategic planning and project management, which includes space programming, construction and move coordination. While these offerings are typically lower on the priority lists of traditional brokers because they aren't as lucrative as transaction-based services, they are critical to corporate clients.

Another deterrent to would-be tenant-only firms is tied to marketing considerations. Brokers that represent landlords get valuable visibility, since they can install their signs on their clients' buildings to advertise the availability of space. Tenant representatives typically don't enjoy this spotlight and resulting brand-name awareness.

*CresaPartners is an international corporate real estate advisory firm that exclusively represents tenants and specializes in the delivery of fully integrated real estate services, including: Transaction Management, Project Management, Relocation Planning and Management, Strategic Planning, Workforce & Location Planning, Subleases and Dispositions, Lease Administration, Capital Markets, and Facilities Consulting. With more than 50 North American offices, CresaPartners is the largest pure tenant representation firm in the United States and Canada. Worldwide, supported by our global alliances, we provide coverage through more than 125 offices in 35 countries. For more information, visit [www.cresapartners.com](http://www.cresapartners.com).*

## Protecting Your Interests

Yet, as the market grows more savvy, the corporate landscape may become dotted with more tenant advisory firms. As part of a changing mindset, many tenants are discovering that their interests are best served when they have their own advocates that provide ongoing corporate services. Often, tenant rep advisory firms operate as an extension of their clients' real estate departments—or as the outsourced department itself. We have seen that clients tend to value long-term relationships built on trust, and relationships of this kind evolve more readily with real estate service advisors rather than listing-oriented brokers.

We recommend that tenants raise the issue of conflict from the get-go, starting with RFPs. We advise clients to ask for full disclosure from brokers, including listings, fees, and commissions; ask for references; and ask for a complimentary audit of their real estate needs.

In the final analysis, tenant advisory firms and traditional firms are industry colleagues, and despite differing philosophies, they can complement each other. For example, tenant advisory firms don't provide services such as property management and income property investments. Indeed, we value our associations with both landlords and their brokers. And we respect the work that competing brokers do. Yet what traditional firms can't do easily is represent two masters.

Looking ahead, real estate will continue to present companies with significant risks and opportunities. Whether it's a tenant's market or a landlord's market, you need to leverage every advantage. While real estate remains your number-two operating expense, protecting your interests should always be your number-one priority.