

OfficeIntelligencer

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Paul Suzman, Frances Sullivan, Larry Pflugboeft, Don MacLaren, and Rick Page.

DID YOU LEARN ANYTHING IN 2005 ABOUT REAL ESTATE NEGOTIATIONS?

12 Tips from Dale Carnegie (and a few from Paul Suzman)

I discovered an old copy of Dale Carnegie's *"How to Win Friends and Influence People."* Though I had never read this book, which was published in 1936, and previously regarded it as cliché, I decided to review the contents with my 14-year-old son at the risk of reinforcing his opinion that his parents are idiots and hopelessly out of touch with cool.

I read a chapter each night to my captive audience and was surprised to find an attentive listener as well as timeless and valuable content relevant to anyone involved in a service business or who negotiates for a living.

Here are some key points from Carnegie's own summary of his book:

1. Don't criticize, condemn, or complain.
2. Give honest and sincere appreciation.
3. Arouse in the other person an eager want.
4. Become genuinely interested in other people.
5. Smile.
6. Be a good listener. Encourage others to talk about themselves.
7. The only way to get the best of an argument is to avoid it.
8. Show respect for the other person's opinions. Never say, "You're wrong."
9. If you are wrong, admit it quickly and emphatically.
10. Let the other person do a great deal of the talking.
11. Let the other person feel that the idea is his or hers.
12. Try honestly to see things from the other person's point of view.

To this list, I would add:

13. Clearly understand your specific space requirements, the market conditions, and alternatives.
14. Always have a strong fall back position.
15. Start the process well before you have to.
16. Be persistent.

These 16 tips are basics for *positive* real estate negotiations.

Whether you are a tenant looking to a three, five, or 15 year relationship with a landlord, or a buyer dealing with an out-of-state institution's agent or attorney, civility and openness will always pay dividends - personal, financial, or both.

On occasion, you will be disappointed when someone you rely on lets you, your client, themselves, and their own integrity down. Do not be deterred. In the words of the Scottish ballad..."take the high road." It is important to set standards.

The purchase of a building is invariably more time consuming than leasing space - and for good reason. It is more permanent, there are more potential pitfalls, and you need to

Continued on Page 2

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TABLE OF CONTENTS

REAL ESTATE NEGOTIATIONS	1
MARKET CONDITIONS	2
WHAT MAKES FOR A GOOD LEASE?	3
CRITICAL LEASE DATES	3
PACIFIC SCIENCE CENTER	4

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DID YOU LEARN ANYTHING

Continued from Page 1

consider future marketability and value. Therefore, the due diligence is far more detailed and exhaustive than with a lease.

As I review the various transactions in which OfficeLease was involved with in 2005, two came to mind as distinctive given the difference in civility of process and how we, as negotiators, felt about the outcome.

In the first case, when a long term client was absorbed into a national firm, we were teamed with their national real estate representative. Technically, this person was one of the most knowledgeable and able people our team had ever worked with. However, he openly stated that he did not care about what people thought of him. And unfortunately, he treated those around him accordingly - discounting numbers one through 12 on Carnegie's checklist. Though the client is delighted with their new space, I do not look back upon this transaction with much satisfaction.

The second transaction was a fairly lengthy facility search resulting in the acquisition of a substantial property which proved to be much different than the first. Our client -- and all those associated with the negotiations -- was determined that we approach the process with due civility. The seller, who admired the buyer and appreciated the way in which our teams were handling negotiations, responded in kind. Although it was a protracted process with numerous bumps in the road, the closing was celebrated with a dinner that warranted good feelings all around. That was a success.

Although I have yet to ask my son for a one sentence summary of Carnegie's book, my hope is that he learned that in real estate and in life, it is not only about the money.

As always, we value your comments.

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The OfficeLease team worked hard to secure our new corporate headquarters - a once in a business lifetime event for our company. They helped us understand the nuances involved in this event as we moved into the perfect space and got the absolute maximum for our money. They repeatedly went beyond the borders of the "deal" to ensure the success of the entire venture, not just the sale. Even though the transaction is complete, they have continued to offer thoughtful advice to help us reach our goals and jump to the next level.

Nick Staub, President/C.E.O. Romaine Electric Corp

Let us know if we can help your company reach its next real estate goal....or if you know someone who might need our counsel.

MARKET CONDITIONS AND DEVELOPMENTS

Vacancy rates in **Seattle** are estimated to have dropped from 14% in the first quarter of 2005 to 11.5% by the end of the fourth quarter. Water view, high-rise space is at a premium, but there are several other options available to tenants who are looking for affordable office space.

Though lease rates should only rise moderately in 2006, the optimistic marketplace is prompting landlords to reduce the amount of financial incentives such as tenant improvement allowances and rent abatement.

Currently, the only major high-rise under construction in Seattle is Washington Mutual's new headquarters which is scheduled to be fully occupied by the end of 2006. In addition, there are several Seattle-area office projects that are currently proposed.

	SF
Stewart Place	650,000
Interurban Exchange	500,000
West 8th	500,000
Seventh @ Westlake	257,000
1918 Eighth Avenue Office Tower	257,000
2000 Third Avenue	275,000
818 Stewart Street Office Tower	230,000
2121 Sixth Avenue	200,000
1100 Eastlake Building	183,000
Denny Way Plaza	115,000
Quadrant Lake View Bldg	100,000
505 First Avenue South	100,000

The **Bellevue** Central Business District (CBD) vacancy rates have dropped more than 20% in three years, from an estimated 30% to 8% by the end of 2005. Lease rates are expected to rise at a higher rate this year than in Seattle which will put upward pressure on Eastside suburban markets. The following projects are currently proposed or in process and set to be occupied in late 2007:

Lincoln Square	542,000
City Center Plaza	569,000
Bravern I	248,000-
II	497,000
Summit	311,000
Bellevue Tower	400,000

The **Kent Valley** market has been positively impacted by the Port of Seattle, which has estimated a 20% increase in container traffic in 2005 and predicts nearly 10% in growth in 2006. Industrial vacancy rates are estimated to have dropped below 5% for the first time in many years.

In 2006, the continuing rise in construction costs will have a significant impact on new construction and remodeling of existing space.

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FROM THE TENANTS' PERSPECTIVE: WHAT MAKES FOR A GOOD LEASE?

We recently reviewed, as did their attorney, the lease documents for three different office spaces for a client. The first two were terrible. They were poorly written, incomplete, and hard to understand. The third provided a sharp contrast. It was clearly written, covered all the bases, and even a layman could understand it. Even then, it still needed some clarifications and modifications to produce a clear, balanced document. Here are a few tips:

Be sure that the **Commencement Date** is adequately defined. If it says "on substantial completion," be sure how that is determined (e.g. by an architect's review or a Certificate of Occupancy). Further, if the space is to be constructed or requires extensive modifications, ensure that there is a date beyond which the tenant can cancel the lease if the space is not ready.

The description of what is and is not included in **Operating Costs** is always laborious. One way to "cut to the chase" is to combine a line item breakdown of what is to be included with the latest charges for each item and make this information part of the lease document. This not only clarifies the content, but also prevents the landlord from adding other charges in the future.

Landlord's Repairs should state what is meant by "Structural Elements of the Building." This includes the foundation and roof structure but not necessarily routine roof repairs, which are typically considered operating costs. There should also be a "self help" provision that says if the landlord doesn't perform within a given period after notification, the tenant can make the repair at the landlord's expense. This is especially the case of smaller building owners. Sometimes this can be achieved by right of offset against future rent payment - a provision that most landlords will do their utmost to avoid.

Tenant's Default is another awkward section and there are several changes that should always be made. Usually, non payment of rent becomes a default from the time of the landlord's written notice. The cure period should be stated in business days to exclude weekends and holidays. It should be from the date you received the landlord's notice by a recognized national courier and not by facsimile as these can lie unnoticed in a fax machine's memory for days at a time.

Transfer of Landlord's Interest when the building is sold. Almost always, the tenant is required to attorn to the new owner, but be sure that the new landlord acknowledges that your lease "will remain in full force and effect."

Holding Over on lease expiration. Usually this is written to allow the landlord to accommodate a new tenant without the space being encumbered by your presence.

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CRITICAL LEASE DATES

Leases often contain dates that directly affect the tenant's ability to remain in the space and in some cases, to terminate the lease early.

Most leases include the right to extend the term at a rental rate to be determined, usually 'at market.' Depending on the size of the tenant, this extension needs to be exercised six to twelve months before the end of the lease term. If the tenant misses the deadline but wants to extend, they can only rely on persuasion and the goodwill that has been generated between tenant and landlord to negotiate an extension. The request for extension is also dependent on the demand for the space.

Currently, vacancy rates are shrinking on the Eastside. This can put tenants in a tenuous position, particularly if the landlord has other preferred candidates ready to occupy the space. If you do plan to exercise extension rights, have your

tenant broker provide information on comparable alternatives before the exercise date, to help in negotiating the lease rate.

Early termination rights are less common, but often more important - particularly for a company that has outgrown its space. Early termination notice is generally required one or two years prior to the expiration of the lease. Often there is a penalty associated with this right, which includes - at a minimum - unamortized costs and tenant improvements. Failure to exercise this option commits the tenant to the space for the remainder of the term. If the tenant moves, the only options are to sublease the space or negotiate an expensive lease buyout.

If you want to remain in control of your lease, take careful note and put systems in place to remind yourself of these critical dates well in advance.

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Pacific Science Center

www.pacsci.org

OfficeLease is proud to be involved with a number of non-profit organizations in the Puget Sound area. Many people do not realize that Pacific Science Center is not run or supported by the City of Seattle. Instead, Pacific Science Center relies on 'gate' for 80% of its revenue. This is the highest self funding for a non-profit science institution in the country. Seattle is extraordinarily lucky to have this organization among us. Long range plans for Pacific Science Center's future will evolve over the course of the year. Stay tuned. *Paul Suzman*

DISCOVER PACIFIC SCIENCE CENTER

That's the mission. As a not-for-profit science foundation, the goal is to inspire a life-long interest in science, math, and technology by engaging diverse audiences through interactive and innovative exhibits and programs. And it happens statewide.

During this last year over 72,000 students and teachers went to Pacific Science Center for field trips. During the same time the Science on Wheels program vans made almost 500 visits to schools in 39 counties statewide, serving over 132,000 students and over 9,600 teachers. And through it all almost one million people visited the more than 300 exhibits and IMAX® films we offer.

Education enrichment programs offer opportunities for exploration and discovery at Pacific Science Center, the Mercer Slough Environmental Education Center in Bellevue, and at libraries, community centers, and other venues. The programs include workshops, science demonstrations, planetarium shows, Camp-Ins, science day camps, and Science on the Go.

Call (206) 443-2001 or visit www.pacsci.org for more info.

GAME ON

Did you know that the Seattle area is home to one of the largest game development communities in the United States? This summer, you'll have a chance to see Game On, an exciting and dynamic exhibit all about the history and culture of computer games. Learn about the science and math it takes to create games, and have a chance to play more than 100 games from the originals to the latest games!

DEAD SEA SCROLLS

In an extraordinary exhibit, the Dead Sea Scrolls will be on display at Pacific Science Center starting September 23 for just 105 days.

DISCOVERING
**THE DEAD SEA
SCROLLS**
SEPTEMBER 23, 2006 - JANUARY 7, 2007

The Dead Sea Scrolls are considered by many to be the single most important archaeological find of the 20th century. They comprise more than 800 documents, some complete or nearly complete (such as the Isaiah Scroll), but many quite fragmentary. There are about 100,000 fragments in all. Most of the scrolls are made of dried animal skins (parchment), and some of the larger ones stretch as long as 30 feet. Visitors will learn about radio carbon dating, multispectral imaging, and the use of DNA analysis to help piece together the thousands of tiny fragments.

Most of the scrolls were discovered in caves along the western shore of the Dead Sea from 1947 to 1956. The most famous of these are the 11 caves near Qumran, where a community lived which some scholars identify as Essenes, a Jewish sect known to have existed elsewhere in Israel during the Second Temple period, which includes the time of Jesus.

Scrolls were also discovered at several other locations north and south of Qumran, and in the 1960s scrolls were unearthed during the excavation of Masada. A few have been discovered during the past decade. The scrolls comprise, among other things, the oldest copies of the Hebrew Bible (also known as the Old Testament) in existence. The scrolls are also important because they have enabled scholars to gather an immense amount of information about how the Bible was written and how it was transmitted from generation to generation. In many cases the scrolls show a remarkable similarity to the text of the Hebrew Bible currently in use.

*Source: Dr. Weston Fields,
Executive Director, Dead Sea Scrolls Foundation*

Limited tickets to this special engagement are available at Pacific Science Center's Web site

www.pacsci.org

Members receive a special discounted rate.

**Group sales information is available
by calling (206) 443-3611.**

For general information call (877) DSS-1947