

A Five-Point Game Plan for Industrial Lease Renewals



Playing the Renewal Game



FUN FACT

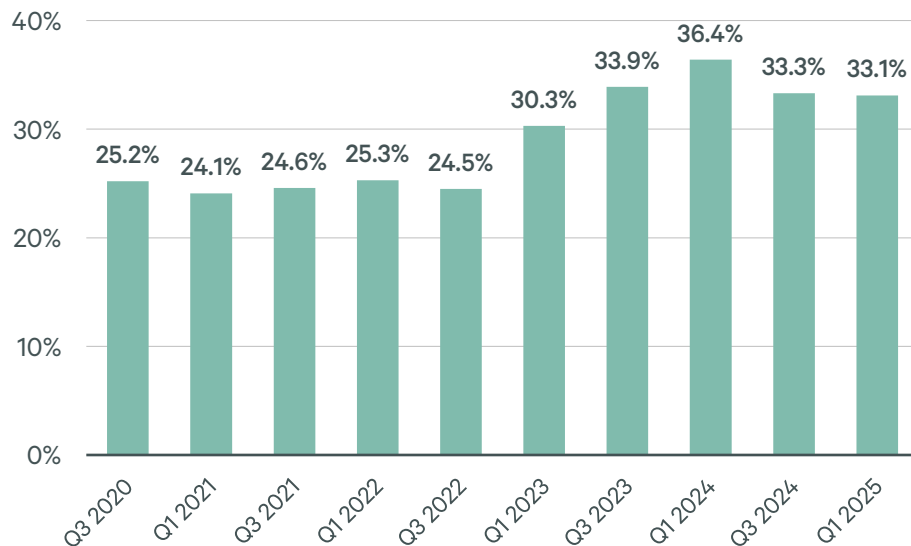
Over 1.6 billion sq. ft. of industrial space is up for renewal from 2025–2027.

Renewal activity for Industrial space is at an all-time high. Both tenants and landlords are shifting the points where they are willing to be flexible. To secure the best deal, tenants need to understand the dynamics at play. This guide examines industrial renewal activity, outlines common mistakes – and sets the stage for crafting a winning strategy.

Renewal Activity

Within the past five years, renewal activity has seen a steady increase. In 2024, it accounted for 35% of overall leasing transaction volume, a jump of around 10 percentage points.

Renewals as % of Total Leasing



The Renewal Landscape



HOT TIP

Tenants have **saved 11% on average first year rent by using a broker** for lease renewals on facilities over 100k sq ft

Source: CBRE Research 2023

The Industrial Scene

As more companies focus on consolidating their space into new facilities, vacancy in older space is on the rise. Coupled with uncertainty around macroeconomic factors, there are strong benefits for both sides to enter into a renewal negotiation.

The benefits of renewing are clear. Tenants can bypass the cost of relocating and setting up in a new space, as well as the risk of disrupting their labor force and their business. Landlords avoid vacancy and a gap in cash flow, plus the cost of improvements and leasing commissions that come with a new tenant.

The Tenant Trap

While both sides benefit from negotiating lease renewals, the playing field isn't level. Landlords know the market landscape well and play in it every day, whereas tenants don't.

Tenants who negotiate their own renewals may gain some concessions, but with little idea of their true worth or how much more they could have negotiated. Landlords can tap into their own experience and market knowledge, often profiting disproportionately at the tenant's expense.

The "trap" comes from tenants not understanding the true costs to the Landlord of securing a new tenant. Tenants will aim to lock in a rate "below-market" and avoid relocation costs. Landlords will decide at what rate they are willing to avoid the downtime, marketing and capital costs that go with securing a new tenant. Without understanding their full value for the landlord, tenants think they've won – but they've left money on the table. Partnering with a brokerage professional levels the playing field so tenants get the best deal on their space.

The Five-Point Strategy

Ready to enter the renewal game? Start with these five steps for a winning strategy.

Start early.

The window to negotiate a renewal opens early. Two years ahead is ideal, to convince the landlord there's enough time to make a move in the market. Landlords know how much time it takes for companies to make decisions and how often they defer action.

Make a list.

Take time to define what's most important. Consider aspects such as:

- Rental rate
- Options
- Renovations
- Signage
- Escalations
- Services
- Expansion

Understand your landlord.

There is no universal landlord. There are family-owned ventures, entrepreneurial investors, pension funds and REITs. Or the landlord might be a structured joint venture or a foreign-based investor. All of them have different hold periods and views on income versus asset value. Plus, every building has its own lease expiration schedule, debt structure and equity maturity. Get to know your landlord's personality, risk profile, financial objectives and operating philosophy. That will help understand how they view and value a renewal in your building.

Create a realistic motive.

Landlords will only respond when they're convinced the tenant has a real need they aren't meeting – and if they don't step up, you'll move. This story needs to be crafted carefully since landlords are masters at the game.

Show you have options.

Come up with tangible alternatives and see that the landlord knows about them. Having outside representation makes your gambit real. It signals that senior management has endorsed the idea of relocation.

Where do tenants typically go wrong?

Here are four common missteps to avoid when you enter the renewal period.

1. Assuming renewal is the easiest option

Renewing helps tenants circumvent the operational, logistical and cost issues of moving. It's easy for tenants to go into a renewal and assume that they are already "ahead" by avoiding these risks. But the reality is treating renewals as a straightforward administrative task leaves money on the table. And over a lease term, that's a much bigger risk.

2. Going in without a clear strategy

A lease renewal is an opportunity to gain a competitive cost advantage. Given the economic benefits at stake, it pays to go in with a strategic approach driven by your company's goals and objectives. Skipping that step can prove costly.

3. Lacking the landlord's perspective

The best renewal strategies reflect that factors that drive the landlord's economics. Think:

- Asset cost basis
- Required ROI
- Economic conditions
- Market conditions
- Competitive position
- Tenant mix and expirations
- Portfolio rental rates and lease terms

4. Understanding the rules of engagement

When tenants are major players in their own industry, it's easy to assume they can one-up the landlord. But landlords are pros at the renewal game. Building a relationship early on – and keeping the business dynamics in mind – can pay dividends in the end.

What are the landlord's advantages?

Landlords frequently come out on top for three big reasons

Insider information

Tenants play the leasing game just once every five, 10 or even 15 years. Landlords are “in the game” every day. So while tenants may try to research options, landlords are way ahead with plenty of resources and inside sources to inform them when tenants are relocating—and where they’re looking.

Masters of engagement

Landlords understand corporate decision-making and recognize tenant bluffs. In a direct negotiation with the tenant, landlords usually have an unbeatable lead from the outset. They can persuade tenants that the big win is the tenant’s ability to avoid relocating costs- and don’t reveal their own costs to replace lost income.

Predetermined bottom line

Landlords know their bottom line—the precise renewal rate at which they become economically indifferent to a renewal vs. finding a new tenant. Few tenants know the landlord’s bottom line which usually amounts to a “below-market rate” or a rate lower than the cost of moving.

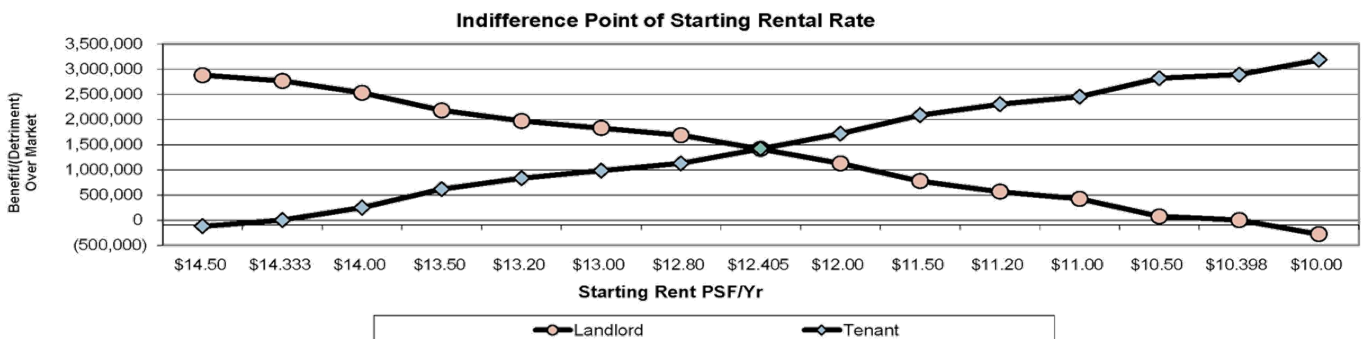
How can tenants level the playing field?

Following the five steps and avoiding the four pitfalls. All are key to the renewal discussion. But it only works when tenants know the market and the landlord. The scenario below shows the difference in perspectives between the landlord and tenant and what rate benefits both parties. To find the win-win point, look at:

- Industrial renewal activity in the market and submarket
- Recent and historical activity within the tenant's existing building
- Recent and historical activity within the landlord's portfolio
- The landlord's personality, preferences and reputation

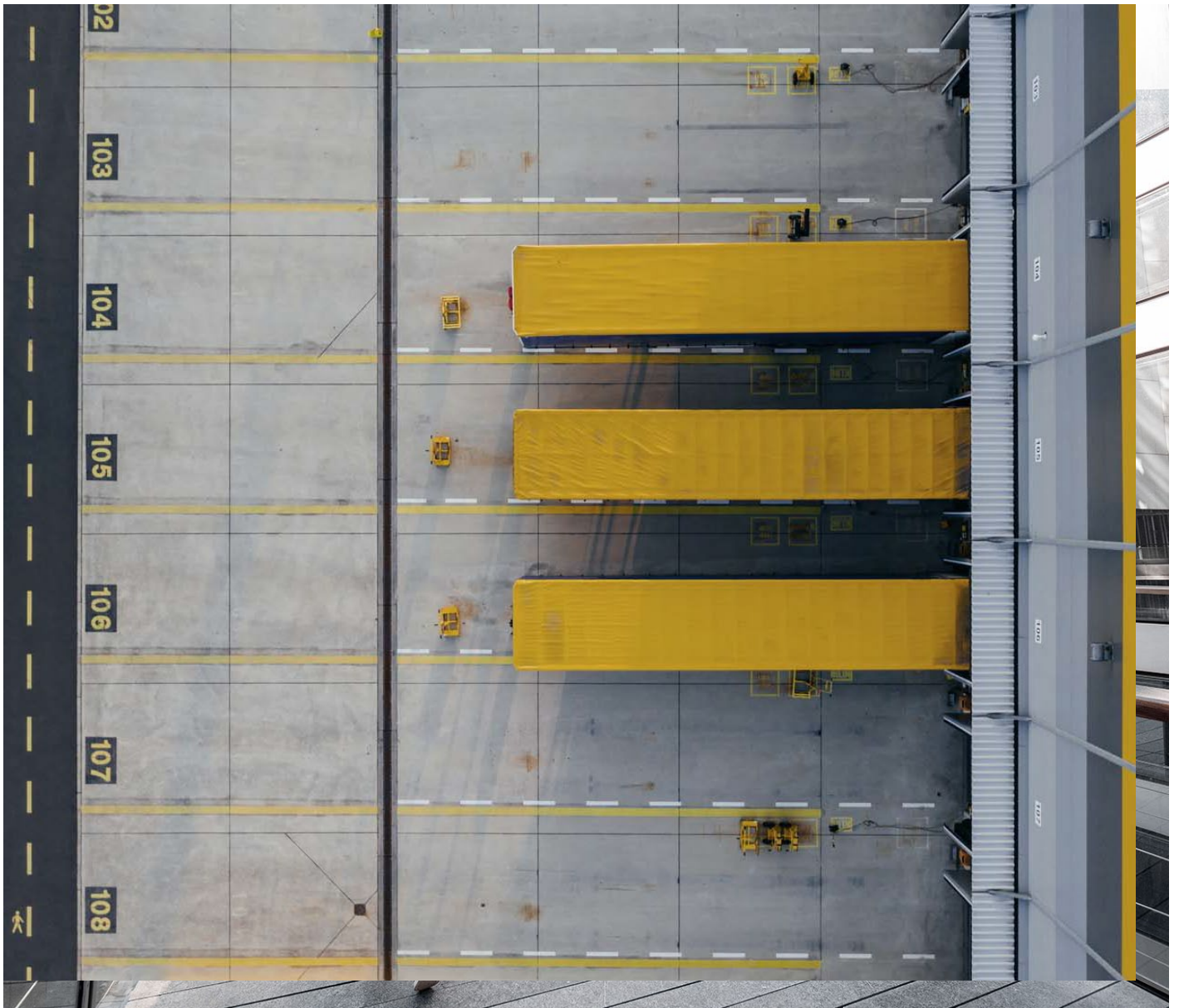
Landlord-Tenant Perspective Scenario

PSF/Year NNN	Landlord's Perspective - Lease Value			Tenant's Perspective - Occupancy Costs			
	NPV of Market Scenario	NPV of Renegotiated Scenario	Benefit (Detriment)	NPV of Market Scenario	NPV of Renegotiated Scenario	Benefit (Detriment)	
\$14.50	7,305,842	10,188,330	2,882,488	11,994,213	12,116,660	(122,447)	
\$14.333	7,305,842	10,071,256	2,765,413	11,994,213	11,994,212	0	Tenant's Maximum
\$14.00	7,305,842	9,837,008	2,531,166	11,994,213	11,749,212	245,000	\$2.9M value to be negotiated ↑ ↓
\$13.50	7,305,842	9,485,687	2,179,844	11,994,213	11,381,764	612,448	
\$13.20	7,305,842	9,274,894	1,969,051	11,994,213	11,161,295	832,917	
\$13.00	7,305,842	9,134,365	1,828,522	11,994,213	11,014,316	979,896	
\$12.80	7,305,842	8,993,836	1,687,994	11,994,213	10,867,337	1,126,875	
\$12.405	7,305,842	8,716,058	1,410,215	11,994,213	10,576,808	1,417,404	Mutually Beneficial
\$12.00	7,305,842	8,431,721	1,125,879	11,994,213	10,279,420	1,714,792	
\$11.50	7,305,842	8,080,400	774,557	11,994,213	9,911,972	2,082,240	
\$11.20	7,305,842	7,869,607	563,764	11,994,213	9,691,503	2,302,709	
\$11.00	7,305,842	7,729,078	423,236	11,994,213	9,544,524	2,449,688	
\$10.50	7,305,842	7,377,756	71,914	11,994,213	9,177,076	2,817,136	
\$10.398	7,305,842	7,305,842	0	11,994,213	9,101,861	2,892,351	Landlord's Minimum
\$10.00	7,305,842	7,026,434	(279,407)	11,994,213	8,809,628	3,184,584	



Working with the right partner can change the game.

Like landlords, good industrial brokers are in the market every day. They know not only the market but the players, their economics, tactics and vulnerabilities – much more than tenants have time or reason to learn. See how the intel and expertise of an experienced industrial broker can give you an edge in your lease renewal and create a win-win result for everyone.



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