

5 Tips to Successfully Renew Industrial Leases



Playing the Renewal Game

Renewal activity for Industrial spaces is currently at an all-time high with both tenants and landlords shifting their approach for what they are willing to be flexible on. It's important for tenants to understand the current dynamics to position themselves to secure a good deal. This toolkit will cover Industrial renewal activity, outline common mistakes – and set the stage for how craft a winning strategy.

Renewal Activity

Within the last five years, renewal activity has seen a steady increase, accounting for 32% of overall leasing transaction volume in 2025. This represents a clear uptick compared to the most recent prior years..

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

Understanding the Industrial Landscape

With many companies focusing on consolidation of space into new facilities, the market could see a higher amount of negative absorption of older space in the coming quarters. Coupled with uncertainty around macroeconomic factors, there are strong benefits for both sides to enter into a renewal negotiation. As a result, rents continue to increase, and growth of renewals is outpacing growth of new leasing.

Tenants can avoid expensive relocation costs that could disrupt their established labor force and introduce the risk of business disruption and further set-up costs in a new space. For Landlords, cash flow will remain uninterrupted as they avoid a vacancy, expensive improvements and high leasing commissions that come with a new tenant.

The Tenant Trap

It's an unfortunate reality that lease negotiations are not conducted on a level playing field. Landlords are fully aware of the current Industrial landscape and dynamics and understand how to play within it, creating a trap for Tenants.

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. Instead, Landlords are able to capitalize on their 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 that achieves their objectives of a “below-market” renewal rate to avoid relocation costs. Landlords will decide at which rate they are willing to avoid the capital costs of securing a new tenant, factoring in their own costs of marketing and downtime. Without having expertise in these market dynamics, tenants are in an inherently weaker position at the outset. Leveraging brokerage professionals' third-party expertise balances the negotiation field and result in a better deal for the tenant.

The Five Point Strategy

Once you've decided to enter the renewal game, consider these five tips for a winning strategy:

Start Negotiations Early

The window to negotiate a renewal must open early and convince the landlord there is enough time to realistically pursue an alternative within the environment. Landlords know how much time it takes for companies to make decisions and how readily they defer action. For tenants over 100k sq ft, the process should begin at least two years prior to lease expiration.

Prepare a Game Plan

Tenants should clearly define what is important, which can span several aspects of their current situation:

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

Understand the Landlord Perspective

There is no universal landlord. There are family-owned buildings, entrepreneurial investors, pension funds and REITs that vary by investment and product type, personalities, risk profiles, financial objectives and operating philosophy. Highly structured, joint venture and foreign-based landlords add even more complexity. Buildings have different lease expiration schedules, debt structure and equity maturities. Landlords have different hold periods and see income vs. asset value differently. All this factors into how landlords view and value a renewal in their portfolio.

Create a Realistic Motive

Landlords won't respond if they aren't convinced a tenant is intent on moving—and that there's a realistic need that isn't being met. This story needs to be crafted carefully since we already know that landlords are masters at the game.

Showcase a Real Alternative

The tenant must come up with tangible alternatives and make sure that the landlord knows about them. A tenant in the market with outside representation makes the threat real. It signals that senior management has endorsed the idea of relocation.

Where Do Tenants Typically Go Wrong?

There are four common missteps that can be avoided when entering the renewal period.

1. Assuming Renewing is the Easiest Option

Renewing helps tenants circumvent operational, logistical and cost issues associated with 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 matter means the company left a lot on the table.

2. Going in Without a Clear Strategy

No one saw the renewal as an opportunity to gain a competitive cost advantage. The magnitude of the economic benefits at stake were underestimated because there was no strategic approach driven by goals and objectives. Simply put, the company "missed out."

3. Lacking the Landlord's Perspective

Knowing all the factors that landlords use to determine their required economics creates leverage—and informs renewal strategy. Landlords determine their required economics based on myriad factors including:

- Asset cost basis
- Required returns to debt and equity capital
- Effect of economic condition on real estate
- Unique features of landlord's market
- Competitive position within the market
- Tenant mix
- Rental rates and lease terms across entire portfolio

4. Understanding the Rules of Engagement

Tenants need to consider their relationship with the Landlord and what the business dynamics are. It's easy to assume that because the tenant is a key player in their own industry, they can one-up the Landlord – but tenants are amateurs in the renewal game.

What are the Landlord's Advantages?

Landlords frequently come out on top for three big reasons

Insider Access to Information

Landlords have plenty of resources and inside sources to inform them when tenants are relocating—and where they're looking. Landlords are “in the game” every day—the tenant plays just once every five, 10 or even 15 years. So despite the tenant's efforts to research options, landlords can pinpoint realistic alternatives much better.

Masters of Engagement

Landlords are well-versed in the corporate decision-making process and have learned to recognize tenant bluffs. In a direct negotiation with the tenant, Landlords usually have an unbeatable lead at the outset and can convince tenants that the big win is the tenant's ability to avoid relocating costs- without ever having to reveal their own costs to replace lost income.

Predetermined Bottom Line

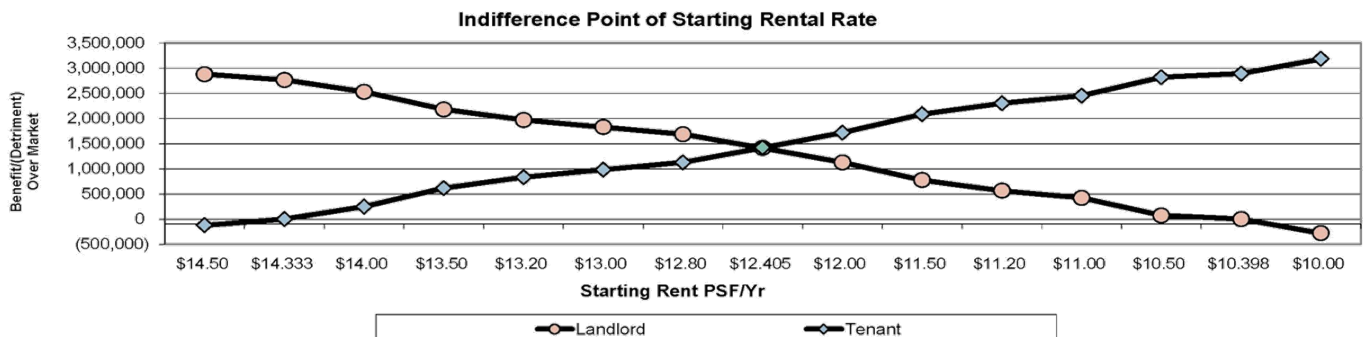
Landlords know their bottom line—the precise renewal rate at which they become economically indifferent to a renewal vs. finding a new tenant. Few tenants know the landlord's bottom line which usually amounts to a “below-market rate” or a rate lower than the cost of moving.

Leveling the Playing Field

Being armed with these tactics is important to entering the renewal discussion – but it only works when supported by the right market knowledge and expertise. The scenario below illustrates the difference in perspectives between the Landlord and Tenant and what rate is mutually beneficial to both parties. It's critical to have insights into the major aspects of the current Industrial market to find this mutually beneficial point, including:

- Industrial renewal activity in the submarket and market
- Recent and historical activity within the tenant's existing building
- Recent and historical activity within the landlord's portfolio
- Insight into Landlord such as personality, preferences or reputation

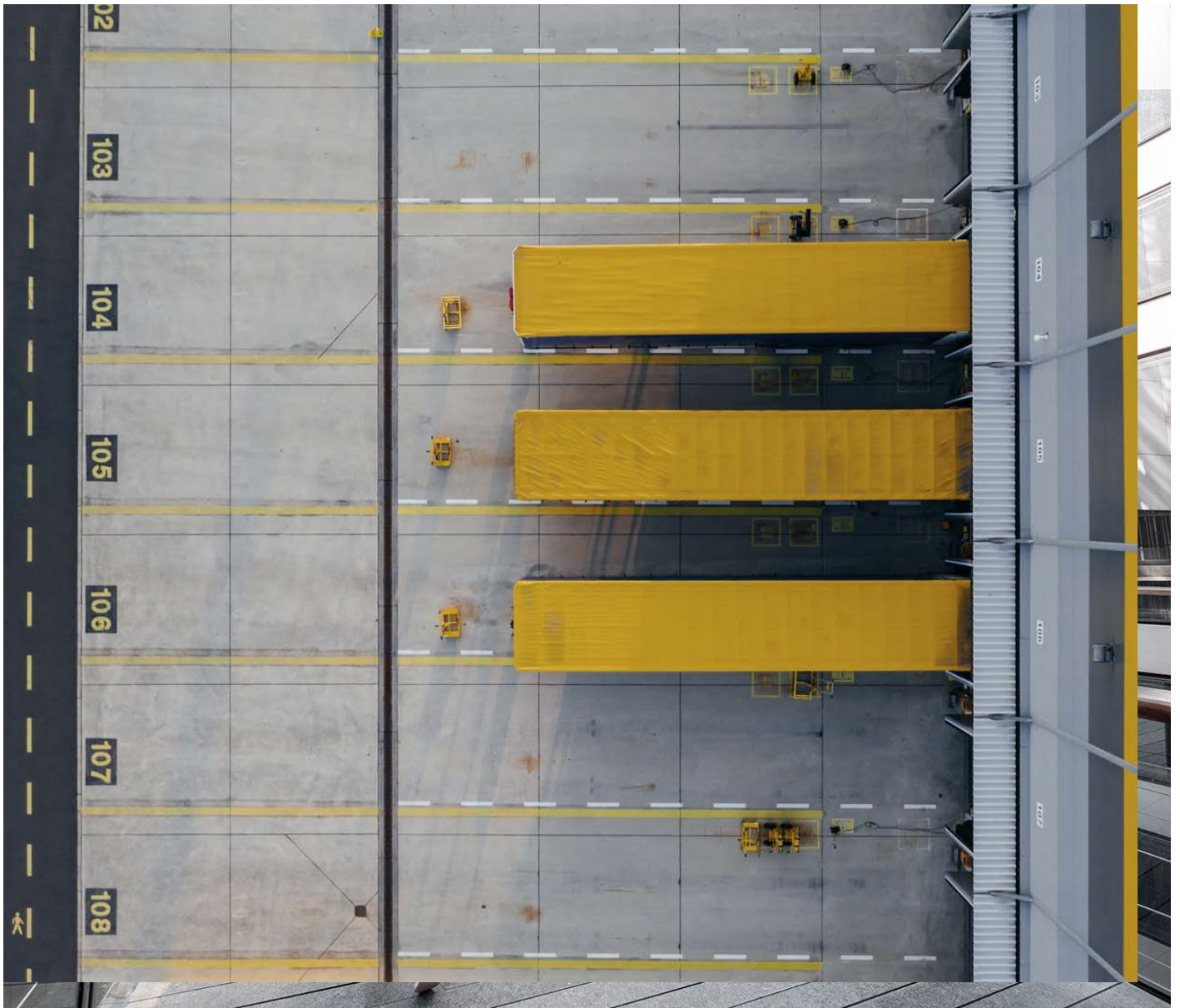
		Landlord's Perspective - Lease Value			Tenant's Perspective - Occupancy Costs			
--Tax Discount Rate		8.00%			8.00%			
--Tax Discount Rate		6.32%			6.32%			
PSF/Year NNN	NPV of Market Scenario	NPV of Renegotiated Scenario	Benefit (Detriment)		NPV of Market Scenario	NPV of Renegotiated Scenario	Benefit (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	



Hiring the right third-party expert can be the game changer.

Like Landlords, good brokers are in the Industrial market every day and are equal masters at making the right moves in all kinds of scenarios, including renewals. Brokers have deep knowledge, not only within the Industrial market sector but across the players, their economics, tactics, and vulnerabilities – factors that tenants and company executives have neither reason nor time to develop.

Engaging a broker with the right knowledge and expertise levels the playing field, resulting in a true “win-win” result for all parties.



Thank you

Gracias

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Salamat

Asante

धन्यवाद

Obrigado

Tack

謝謝

O Se

Спасибо

감사합니다

Bedankt

Grazi

ਧੰਨਵਾਦ

Merci

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شکرا

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شکریہ

Teşekkürler

Danke

ありがとう

Dziękuję

FOR MORE INFORMATION

Chris Zubeł

Executive Managing Director,
Americas Industrial & Logistics

Ruben Ramirez

Occupier Leader,
Americas Industrial & Logistics

Ian Britton

Senior Managing Director
Advisory & Transaction Services