TAKING CALCULATED RISK: CONTRACT AND PAYMENT TERMS

Money makes the world go around, especially in the Commercial Real Estate world. Once a real estate transaction is initiated, several parties are engaged and begin putting the wheels in motion, which means dollars are being spent. This includes the landlord, brokers, the tenant, local jurisdictions, designers, engineering teams and contractors.

Depending on the market, economic climate and size/nature of the real estate deal, **contract terms and payment terms** can be approached from very different angles. For illustrative purposes, imagine the following scenarios:

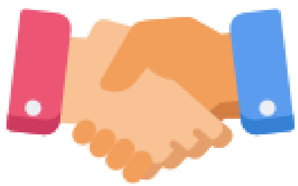
1. During a bullish economy in an emerging market, a top-tier law firm with excellent credit is looking to build out and lease 50,000 square feet for 10 years.
2. During a bearish economy in an established market like New York or San Francisco, an early stage start-up is looking to build out and lease 15,000 square feet for 5 years.

It’s easy to understand how payment and contract terms would be approached differently for both deals.

Contract terms that all parties agree to are ultimately a function of how much risk each party is willing to assume in a deal. Larger entities driving deals in emerging markets with smaller vendors/contractors will typically leverage contracts and payment terms to their benefit. Smaller entities in more established markets will generally have to play by rules that are not always in their favor, thus requiring the smaller entities to take calculated risk in what terms they agree to. It’s all about your risk tolerance and where there is more risk, it becomes increasingly important to work with reputable companies and people you trust.

Payment terms function in a very similar manner. Larger entities are typically able to pay in 60 or 90 days and require shorter pay terms from their clients. Smaller entities will typically have to pay in 30 days while their clients will typically pay them in 60 or 90 days. <u>This swing in 30-60 day pay terms can have a massive impact on business operations.</u>

Ultimately, payment terms and contract terms come down to risk, operations and making sound business decisions. No matter what is agreed to, great partnerships are built on a foundation of deals that create “wins” for all parties involved.



While the world tries to function in black and white, commercial real estate functions with quite a bit of grey area at key milestones in the process. Trust, adhering to contract terms and timely payments are what fuel successful deals.

KEY TAKEAWAYS

- Work with reputable firms and people you trust
- Create win-win scenarios for all parties involved
- Leverage mutually agreeable contract and payment terms
- Timely payments keep deals moving in the right direction