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Industry Insights

TENANT RETENTION

Why does customer service matter? Tenants are locked into leases after all, right? They are. But turnover is *expensive*! Two examples below walk-through scenarios giving specifics for how tenant retention hits ownership’s bottom line. In both cases we use \$2.50/sf rents with 3% annual increases for a 2,000 sq ft space.

Case Study: Turnover v Renewal

Situation 1:

A tenant renews for 66 months vs 6 months vacant, 3 months of free rent, a \$20/sf TI, and a 6% commission to find a new tenant.

<u>Tenant Turnover</u>	
6 Months Vacancy	-
3 Months Free Rent	-
57 Months Rent	304,200
Commissions @ 6%	(18,252)
TI @ \$20/sf	(40,000)
	<u>245,948</u>
<u>Tenant Renewal</u>	
66 Months Rent	354,000
No TI	-
	<u>354,000</u>
Increased Owner Profit	<u><u>108,052</u></u>

Situation 2:

A tenant renews for 15 months vs a 3 month vacancy until a new tenant is found at the same rate for a 12 month lease.

<u>Tenant Turnover</u>	
3 Months Vacancy	-
12 Months Rent	60,000
Commissions @ 6%	(3,600)
	<u>56,400</u>
<u>Tenant Renewal</u>	
15 Months Rent	75,450
	<u>75,450</u>
Increased Owner Profit	<u><u>19,050</u></u>

An incorrect objection is that the comparison isn’t “fair” because the renewal term is longer. The easiest way to think about it: those are three months of vacancy you will never “get back”. Even if both options are 12 months, then you have your next paying tenant 3 months sooner, too.

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Your most expensive costs are invisible, hidden in turnover

These numbers are often a surprise to those who have not penciled it out. The 5 ½ year scenario is 44% more profitable to the owner with a tenant renewal instead of vacancy and a new lease! To the original question: why does service matter? Because even if only 1 out of 10 tenants make the decision to stay based on service, that is a hidden 4.4% cost savings - the entire property management fee for 5 years! From one out of ten tenants staying when they otherwise may not have! In our second example - a building that thrives on 1 year leases but has tenants turn over after 1 year instead of staying for another year or more - the 1 in 10 tenants who leave add an additional 3.4% fee to the owners across *all* tenants. Owners view management fees as a cost that should be reduced, but effective management pays for itself many times over through improved tenant retention!

Windsor's mission is to maximize the value of your asset with zero work to the owner. Through better retention, purchasing power discounts, precise billing of common area maintenance, and proper asset planning, we can generate a meaningful return that maximizes your asset value.

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Tenant Retention is just one component of the value Windsor adds. It happens through quicker responses - via phone, email, 24-hour answering service, etc. and because our vendor buying power elicits a quicker vendor response. When we tell our vendors that a project is urgent, they prioritize our needs because they value the business we provide across our portfolio.

Windsor also has an "attitude" of customer service. *Tenants want to be heard!* They want to know we are working quickly and effectively to solve their problems. A happy tenant is more willing to renew at the end of their lease while a tenant frustrated with management may look elsewhere.

Small changes in tenant retention creates a large bottom-line impact to you, the owners!

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