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SPECIAL BUREAUTIQUE

FOR WHOM DOES YOUR BROKER WORK?

Caught between a rock and a hard place, between the landlord and the tenant, for whom do real estate brokers actually perform their services?

by Christian Rioux

In Montreal, brokers often complain about commercial real estate developers. In no other office space market, they say, are intermediaries between tenants and owners more active in transactions. In addition to the large national firms, Montreal has several local brokers who take a considerable share of the market.

"That is because they're efficient, and because they respond to a need," explains Luc Desjarlais, a private real estate consultant. "It's a dictatorship over the owners!" counter those who must pay huge commissions, accept lower rents, and provide extra services that skillful negotiators manage to extract from them.

Depending upon where you stand, you might wish to erect monuments to these intermediaries — or hold them up to infamy. Yet each broker claims to deliver "unique and essential" services. Whether they address themselves to owners, tenants, or both, they all promise to find the "miraculous solution" that will afford the best lease or the most advantageous leasing conditions.

The real estate equalizer

On the 33rd floor of Place Ville Marie, Stephen Leopold has a collection of over 200 paintings by contemporary artists. Is the man a megalomaniac? This former Watergate investigator turned lawyer certainly shows signs of being one.

Stephen Leopold finds it difficult to sit still for more than two minutes at a time. It is easy to imagine him terrorizing Montreal landlords, who by the way fear him like the plague. "When Leopold takes part in a transaction," says one landlord who prefers to remain anonymous, "the negotiations are ferocious! He always succeeds in prying loose something extra." Stephen Leopold is a "broker" who refuses to accept the label because he considers it too pejorative.

In effect, the term "broker" damages his image as a defender of the tenant. "A typical tenant negotiates a new lease once every twenty years, while the landlord knows all the tricks of the trade. Someone had to come along and assist the tenants on an exclusive basis." Stephen Leopold decided to provide that assistance.

According to Leopold, the world of real estate can be compared to a jungle. The

lease of a class "B" office building contains close to 100 pages of legal jargon, only a few of which concern the obligations of the landlord. "Tenants often don't know what they're signing," he says. "I have seen leases obliging tenants to pay for the reconstruction of a building in case of an earthquake!" Certain landlords guarantee their tenants the right to sublet. But when one examines the lease more closely, one finds an exclusion clause that obliges the tenant to sublet only to a company in the same business as the tenant, which effectively annuls his right to sublet.

The tenant can sometimes turn a lease to his own benefit. Examining all of the North American leases of the Celanese

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company, Stephen Leopold discovered a clause in one of the leases that was tremendously undesirable for the landlord. The landlord agreed to pay Celanese \$10 million in order to cancel the clause. Some real gold mines are hidden in lease jargon. Several years ago, the CIL company, a tenant at Place Ville Marie, sold its lease to Royal Trust for more than six million dollars. Negotiated in 1968 at a rate of \$12 a square foot for a term of twenty years, the agreement included an option to renew at \$15 a square foot in a building that is today fetching approximately \$28 a square foot.

Leopold's reputation is built on its commitment to represent users of space exclusively. Sooner or later, all brokers invest in real estate development, receive mandates from owners of buildings, or

take up property management. Not Leopold! "However easy and profitable it would be," he says, "I've always resisted the temptation in order to avoid a conflict of interest."

Whenever a tenant becomes the owner of his own building, Stephen Leopold ceases to represent him. Having carved out a special niche in the market, his recipe for success has proven particularly profitable; over the last three years Leopold has tripled his staff. He now employs seven full-time attorneys, and claims to be running the largest company of its kind in North America. Although he is tight-lipped concerning profits, they are doubtless sufficient to keep him from leaping the fence and becoming a real estate developer.

A new breed of broker

In the past few years, competing against the giants of real estate brokerage, various local brokers have emerged along non-traditional lines. Like Leopold, each of them has defined its own niche and its particular role in the market.

Performing a function the diametric opposite of Leopold's, the Danapro company represents only landlords. According to its president Alain Beaudoin, it is "the only firm to work for the hand that feeds it." Founded three years ago, this young firm has been responsible for leasing space in the Sun Life building, which was deserted by its occupants in the late 70's. Danapro's data bank of 8,000 names encompasses the entirety of Montreal office space and indicates those tenants who will soon renew or who are thinking of moving. Alain Beaudoin and his team of salesmen offer to landlords a complete marketing service for their buildings.

According to Beaudoin, over the last several years all brokers have had to define their role in order to find a place in a crowded market. Stephen Leopold's example has led most of the brokers to try to project an image favourable to tenants. A recent Devencore ad presents that company as a "space hunter," not as a hunter of tenants. Devencore, however, is also a developer and a broker that accepts contracts from building owners and offers consultation services... ■

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