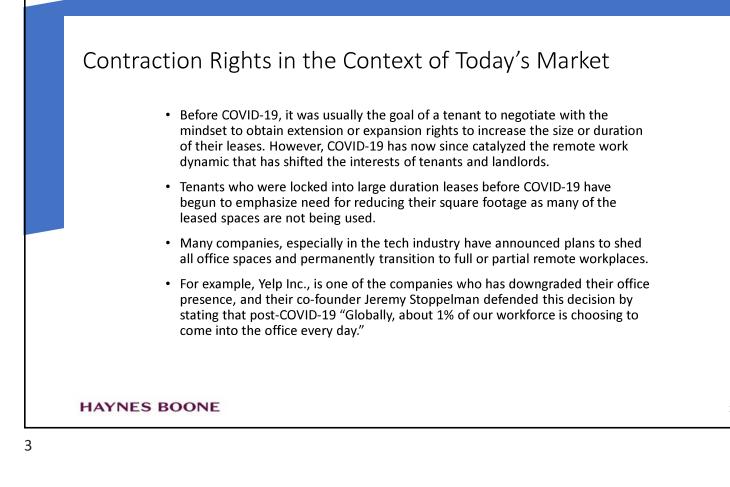


What are Contraction Rights?

- Contraction rights are rights granted to the tenant or landlord for the purpose of reducing the amount of leased space by the tenant during the term of the lease.
- These rights are usually negotiated in the letter of intent process but sometimes arise during the lease term as the needs of landlord and tenant change.
- The common legal instrument for effectuating contraction rights are a partial surrender agreement, termination agreement or lease amendment.

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Contraction Rights in the Context of Today's Market (continued)

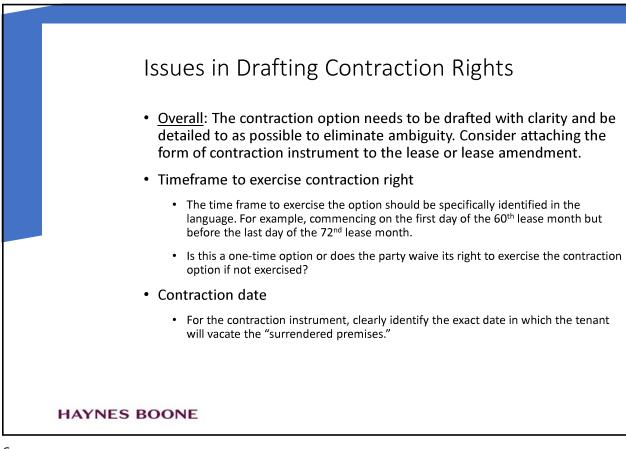
- This shift in the leasing environment has called for a more tenant-friendly approach as Landlord's must be more flexible to the ever-changing environment.
- Tom Fulcher, chair of Savills Inc.'s legal group in an article in the American Lawyer stated: "[f]irms continue to sign 10-to-15-year leases, but longer-term leases didn't [use] to have termination options, and now they do" and "[t]here are also contraction options, which gives the right upon renewal to lease less space. That flexibility has become a huge part of deals."

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Key Considerations Concerning Contraction Rights

- From a tenant's perspective, contraction rights provide the flexibility to changing business needs. Tenants who are currently negotiating long-term leases or pursuing a lease renewal should heavily consider pushing for these rights in the negotiation process.
- From a landlord's perspective, landlords should be flexible for tenant's needs, but also for its own needs. This means that if a landlord allows for a contraction right then landlords should consider negotiating a more substantial base rent amount, securing a landlord-friendly guaranty or an increased contraction fee. Further, landlord should consider whether if the surrendered space will be practical enough to re-lease to another tenant and if it will be profitable enough.

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