Tenant Strategies for Office Leasing - 2009
David Morris, CCIM, SIOR
Senior Vice President, Brokerage Services

If your office lease is due to expire anytime in the next three years, you should be taking a strategic look at your space needs. It’s likely that 2009 will be very favorable to tenants and we expect an increase available office space throughout the region resulting in more concessions, flexible lease terms and lower costs being offered by landlords.

Do you know anyone who has relocated their business recently? It doesn’t always go well. Some people would rather have major surgery than move again but, have faith. For tenants in this economy, it’s worth the effort. So, where to start?

Planning, Planning, Planning
Regrettfully, there are no rules etched in stone about when to begin planning a company’s move. The rule that may as well be etched in stone, however, is your current lease has an expiration date. Your landlord most likely wants you to stay, but hopes you will wait until the last minute because it gives them better chances that you will be forced to stay (at rental terms more favorable to them).

Look at your lease. Specifically, read the renewal clause (if you negotiated one) and read the section relating to “Holdover” penalties. If you don’t leave enough time to find a new space or finalize a renewal, the landlord may be legally entitled to charge you 150% to 200% of your last month’s rent. Does your renewal option state a specific rental rate if you renew your lease? Does it show other concessions that are commonly available in today’s office market?

Other questions to ask before you start your search in earnest:
• What are the company’s growth plans for the next 3-5 years?
• Where are my customers/employees/competitors located?
• What nearby amenities are important to any new location (near the airport, lunch spots, conference facilities, etc.?)

A Year Ahead?
The actual timing is driven by many variables: space availability in the market, company size, approval(s) process, specialized improvements, etc.
But try starting as much as a year ahead. Doing so will give you a sense of the market, give you a chance to learn what the supply of available space is, how much it costs and how aggressive landlords are willing to be to attract you to their building. Think of this period as the insurance premium you pay toward your successful move. (Note: If you contact a commercial real estate agent to assist you and they don’t show keen interest in helping you create a strategic plan because “it’s too early”, find another agent!)

**Comparison Shopping**

Look at enough properties to make a useful comparison. Include your current space. Compare rental terms, amenities, construction quality, neighbors and parking. Also, check out the landlord. Who owns the building? What is their reputation in the market? If you are a tenant, who will you call when the property needs maintenance? Try talking with neighboring tenants about their experience in the buildings. You or your agent should use spreadsheets to compare the alternatives. By starting early you are more likely to remain objective (an important thing). If you have a good relationship with your existing landlord or property manager, you may feel a little guilty for looking at other buildings, but they want you to feel an obligation to stay. Remaining objective removes the emotion out of the decision process. (Note: Another reason to use an agent is that it allows you to maintain good rapport with your current landlord while your agent plays the “bad guy”).

**Honing In On the Right Address**

One or two of the top properties will rise to the top. Again, be sure to check the services in and around the building(s) to make sure, for example, that each employee won’t have to drive 20 minutes (each way) every day just to get lunch.

Don’t get stuck making a decision just based on a building’s rate-per-square-foot! Your space requirements will layout differently from building to building. Even though one building’s rental rate may be $1.00 per square foot less than another, you may be able to fit into less square footage at another building thus, lowering your total cost. The same trap exists for tenant finish allowances that landlords offer. Don’t be turned off when one landlord only gives you $15.00 per square foot, but another gives you $25.00 per square foot. Your focus should be to get the space configured and built out the way you want it irregardless of what a landlord will give you in tenant finish allowance.

Be sure to check how the building’s operating expenses and real estate
taxes are handled, too. Are you getting the best scenario in each case? Will the building be subject to any significant property tax increases or renovations/upgrades during your lease term? These are good questions to ask because many of these costs are passed on to the tenants as “addiction rent”.

**Real Estate Agents**

Hire an exclusive agent. You are far better off with someone looking out for you, someone who is in the real estate market day in and day out. Make sure your agent does nothing but sell and lease office space in your area. It won’t cost you anything! The commission is paid by the landlord and is already factored into the rent and almost all office projects have a listing broker. You don’t “save” that commission money if you negotiate on your own. If you go it alone, the landlord’s agent will keep the entire fee (versus sharing it with your agent), and you’re only subjecting yourself to overlook important financial issues.

As with many professions, the best people in the industry seek higher education or specialty within the industry. For commercial real estate professional is, the two primary designations are CCIM (Certified Commercial Investment Member) and SIOR (Society of Industrial and Office Realtors). These designations are achieved only when the individual has successfully passed graduate-level study in financial analysis and commercial real estate studies and has documented a certain level of experience in the real estate industry.

On average, people can get these designations in five to seven years. (Agents with both designations are in the elite top one-percentile of licenses Realtors!) Just like you wouldn’t want a podiatrist working on your heart, pick a specialist to be your partner. If you go to www.CCIM.com or www.SIOR.com, you can locate agents with one or both designations in your area.

**A Few Last Details….**

Be open to considering new locations and areas to locate your business and be flexible in your objectives. New office developments have been built since your last negotiation, and you should get a good understanding of what makes these locations popular with other companies.

Create a search-committee comprised of key individuals within your company. Choose individuals who will remain open and objective and who can give important input on certain aspects of a new office location.
Leaving an important decision like this to one or two individuals will result in a lot of second-guessing.

If you are a regional office of a larger/national company, be sure to check with HQ to find out what protocol needs to be followed. Some companies have national relationships with realtor companies so, even though you think you've found the best real estate person to help you, if they're with a different real estate firm, you will most likely have to work with the company HQ says. Also, many large companies have minimum standards (a “standards” check list) for new office space. Make sure you're aware of issues that HQ will require for new office space. (For example, some companies will not lease space in buildings that aren’t fully water sprinklered or have asbestos).

This article was written from the perspective of a user of office space but the same principles apply to users of retail space and industrial/warehouse spaces. Some of the time frames and location considerations vary however from discipline to discipline. Seek real estate help with any questions you may have.

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David Morris is Senior Vice President at Gundaker Commercial Group. GCG specialized in all aspects of commercial real estate including tenant/buyer representation for office, retail, industrial, land and investment real estate. For more information and articles, visit www.gundakercommercial.com