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Cutting Office Rent Overhead to make it through the Downturn

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Every company is feeling the effects of this current economic cycle and every prudent business leader is reviewing budgets to find potential savings. What about looking at your office rent expense? If you're willing to be flexible, you might be surprised to see some real savings.

To illustrate this further, the charts below compare rent payments for a 5,000 SF office tenant considering a three year term across three popular submarkets. The rental rates used in this example are the Average Asking Rents for Class A, B and sublease* spaces according to Grubb & Ellis|Gundaker Commercial's Research Department.

Downtown				
Bldg Class	Square Ft	Avg Rate/SF	Term	Total Payments
A	5,000	\$19.27	3 Yrs	\$289,050
B	5,000	\$15.18	3 Yrs	\$227,700
Sublease	5,000	\$12.00	3 Yrs	\$180,000

Clayton				
Bldg Class	Square Ft	Avg Rate/SF	Term	Total Payments
A	5,000	\$26.12	3 Yrs	\$391,800
B	5,000	\$21.25	3 Yrs	\$318,750
Sublease	5,000	\$16.00	3 Yrs	\$240,000

Chesterfield				
Bldg Class	Square Ft	Avg Rate/SF	Term	Total Payments
A	5,000	\$25.39	3 Yrs	\$380,850
B	5,000	\$20.17	3 Yrs	\$302,550
Sublease	5,000	\$15.00	3 Yrs	\$225,000

**The sublease rates are not published asking rates but are attainable rates based on our market opinion.*

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Flexibility

If a company can be flexible for the purpose of achieving optimal savings, there could be some significant savings. For example, according to these charts, a company occupying 5,000 SF of office space in a Class A office building in Clayton with the flexibility to relocate to a sublease space in Downtown would have a savings of \$166,800 over three years. Even factoring in moving costs, these are still some real savings.

In shorter term leases (terms less than 3 years), don't expect to get much (or any) tenant finish dollars from the landlord and sublessors rarely offer any. Being flexible to lease a space "as-is" is key to getting your best deal.

Not reflected in the savings above is your company's ability to occupy less space. If you're feeling the economic pinch, chances are you can shed a few square feet as well, which would result in even greater savings.

Sublease

It is widely believed that the St. Louis office market will see a great deal of companies of all sizes closing their doors and offering their space for sublease. Many of these are great opportunities for tenants looking to:

- Save money on rent
- Move up in quality of space without paying more in rent
- Walk into turn-key spaces which frequently include the existing furniture

There are some precautions about subletting space (see reference to article below) but if you get around those issues, it can turn out very well and allow you to weather this storm.

There are other related articles and research on my website, www.Morris-CommercialSource.com

- "Got too much Space? Sublease It"
- "A Tenant's Guide to Restructuring a Lease"
- "Tips and Techniques for Office Leasing"
- 2009 St. Louis Office Market Report

Or, you can contact me directly at 314.719.2050 or dmorris@gundakercommercial.com to find solutions to your real estate needs based on your particular situation.