

Looking for a Lease? Know the Rules.

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My office space lease is coming up for renewal next year. Any suggestions?

Whether you're negotiating for the first time in many years, or looking for the first time, the same rules apply. Hire good advisors. Look around. Be realistic about your needs. Figure out what you're willing to negotiate or compromise on. Limit negotiations to what's essential. Don't fall in love until the lease is signed.

Hire good advisors to support you. You'll need a tenant broker, a real estate agent, a tax accountant, a design consultant, possibly an architect. This team will keep you out of trouble by advising you on options, opportunities and pitfalls you might not see yourself.

The tenant broker works for you, even though the building owner pays their fee. A tenant broker is different from a leasing agent who works for the building owner. The broker can help you clarify your needs, show you what's available, help you avoid problem areas and advise you in the negotiations. The broker can also help with demographics on the areas you're considering, such as traffic, income, safety, and owner reputation.

Use a real estate attorney to pinpoint problems in leases and review the contract for responsibility for costs to build

out, escalation clauses, sub lease arrangements, 24 hour access, commons fees, insurance requirements, personal guarantees, what happens in the case of building interruption, permitted use, resolution of disputes. Remember that once the attorney quotes a base fee to review the contract, all additional hours they invest to negotiate on your behalf are likely to be billable.

You'll want to ask your accountant to review your projection of costs and changes to your budget, and to discuss with you tax and cash flow implications. Design consultant and architect can advise you on how the space should look once you're ready to move in. If build out is needed, check if the owner requires that you also pay for their architect to review your plans.

Plan to spend at least 4 weeks looking around, longer if you have the time. Consider various classes of buildings and get to know different areas of the county. Consider view vs. non-view, low floor vs. high, inner rooms vs. window space, elevator vs. non-elevator, buildings with and without common services such as cafeteria. Keep notes on each building you look at, so you can later reflect back on what buildings you did or didn't like, and why. You may find that what you really liked wasn't so much the building as the amenities, in

which case you can advise your broker on what to keep looking for. Your best negotiating leverage is being able to walk away from a bad situation because you know you have options.

Lay out a realistic picture of your needs. Consider headcount for 5 years, 10 years. Will people telecommute, and use common workstations. Figure on 150 to 250 square feet per person using the offices, plus 25 – 30 square feet per person for conference rooms, 7 square feet per storage cabinet, 15 square feet per person for break rooms and common areas.

Give yourself some room in the budget to stay in the space if things in the business go wrong. Typically real estate represents 4% - 5% of total overhead costs, more the smaller your business is. Be careful not to tie up funds you'll need to invest in growth.

Typically the biggest rental cost is upfront – negotiating, deposits, build out, relocation. It's in your best interest, to find space you can stay in for a long time. Do plan into your budget the cost of refurbishing the space at the 3-5 year mark, to keep things from getting tired looking.

Ask yourself: Do you work on weekends or at night? You'll need to access the building, be sure it's safe in off hours, have an HVAC thermostat you can control in



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your space. Can you live with a small refrigerator, water cooler and microwave, or do you need kitchen facilities or a cafeteria. Are you looking for a building style that will appeal to your customers, or do you only need back office workspace.

Once you've found buildings you like, take the time to meet tenants there. Ask about landlord and tenant problems. You don't want a landlord or neighbor who is so troublesome that they're going to make your life miserable. Take a close look at how well maintained are the buildings and grounds. Don't expect things to get better just because you're moving in. Finally, don't fall in love until the lease is signed. Keep your options open until the deal is done.

Looking for a good book? Try *Timing Your Office Lease – A Timeline for Finding and Negotiating Office Space*, by Robert A Miller, Co-author Brian L. Miller.

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