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What to do? Relocate or renegotiate your lease?

Yogi Berra understood the basics of corporate real estate decision-making when he advised, "When you come to a fork in the road, take it."

For many growing businesses, the fork in the road is to either relocate (hopefully to a more cost effective situation) or renegotiate a lease and, in the process, upgrade space.

What to do?

Clearly the answer is dependent on many variables. Still, if you understand the dynamics of your office market (currently a tenant's market) and the negotiation process, and have the courage and insight to ask for what you want, you just might get it. The key to getting the best deal is to follow a systematic approach and a few important rules of the road.

Know your alternatives. You should have an excellent idea of the current office market based on the responses to the RFP your tenant representative produced and distributed for you.

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Don't fall in love or bluff. You are always in a strong negotiating position with an attractive alternative proposal (or two) in hand.

Understand the landlord's motivation. A merchant developer leasing up a building for sale will react differently than an entity holding property for the long term.

Understand your company's priorities. Forced ranking will help you determine if, for example, the view from a high-rise space

warrants paying a premium, or if having everyone on one large floor will deliver expected efficiencies.

Landlords will usually offer some concessions on first inquiry. It is up to you to determine which have the greatest value

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rent for the initial months of your lease.

- **Pocket space.** The landlord can reserve space that you pay for only when stipulated by schedule or if you actually use the space in the interim.

- **Expansion options.** Such options give you the right to lease additional space at certain dates during the lease term, thereby postponing rent payment until you need the space. If you never need it, the options cost you nothing. (Landlords will typically rather propose rights-of-first-refusal or - offer.)

- **Rentable area adjustments.** Rent is based on rentable square feet (RSF) determined by measurement standards developed by the Building Owners and Managers Association. This load factor depends on building design efficiency, factors in common areas over actual useable square footage, and adds 6 percent to 20 percent to your useable area before multiplying by the rental rate. Be very clear

to your company. The nature of concessions is limited only by the flexibility of the landlord and tenant. Consider asking for concessions such as:

- **Rent abatement.** Many landlords want to keep their stated rent as high as possible in case they want to refinance or sell the building, yet they will lower your effective rate by abating

on how this is calculated and how much space you are actually able to use.

- **Tenant Improvement (TI) allowances.** These can be as much as \$85/RSF for a national long-term credit tenant considering a space that needs to be completely fitted out from shell, to as little as \$6/RSF for repainting and carpeting. Understand if, for example, new space is in "cold" or "warm" shell condition? The difference can amount to almost \$15/RSE.

- **Termination or contraction rights.** Pegged to certain dates or circumstances, this concession is usually associated with a penalty to compensate landlord for unamortized leasing costs.

- **Off-hour charges.** Landlords usually calculate their operating costs, especially for heating and air conditioning, on a typical work week and charge for off-hour use. Depending on the building's HVAC system, the cost can be minimal. Understand the amounts if unable to have such charges waived.

Other possible concessions include existing lease obligation assumption, moving costs, architectural and project management costs or subsidized parking.

Experience shows that each deal and landlord is unique. Your tenant representative should counsel you as to which concessions are reasonably achievable. Use a systematic and forthright approach in structuring your negotiations. Most importantly, remember this — you only get what you want if you ask.

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▼ **COMMERCIAL REAL ESTATE**

Five points to consider before leasing office space

BY PAUL SUZMAN

Lease versus own: a question most business people pose to themselves at one time or another. If you've decided that your company should lease and not own its facilities, you've got a lot to consider before you make your best deal. Here are the top five factors to evaluate before getting into the commercial space leasing game.

Space: How much space do you need? Over the last seven or so years, the oversized corner office has become outdated. Organizations are flatter, and the executive suite has in many cases been abandoned in favor of a management-by-walking-around philosophy in which team leaders are housed closer to their people. Spaces are being designed more for their functionality and less for their visual impact on visitors.

Space planning helps translate your business plan into a schematic that illustrates how each department relates to others within the work environment. The working drawings tell the final story. Be sure to hire an architect who communicates well and who is willing to push back when your enthusiasm starts to compromise budget.

Economics: How much can you pay? The classic tug of war between needs and wants rages on. Nobody needs a high-rise view of Lake Washington or Puget Sound, yet few would disagree about the desirability of this amenity. Not all firms need to be in a downtown core or close to clubs, hotels and restaurants. You need to decide where your firm's want dollars are best invested.

A forced ranking process can be very

helpful in sorting through wants versus needs. This isn't rocket science. Rather, it is identifying each factor that makes for a sound decision and evaluating each against others, one by one. Industrial users tend to be able to weigh options more objectively than office users.

Geography: Where is the best location? Certain law firms must be near the federal courthouse. Retailers always try to determine their demographic sweet spots. And manufacturers or distributors consider truck access, power supply, and land for expansion.

Once again, we circle back to economic considerations which make this process dynamic. Generally speaking, the farther you are willing to travel, the less you will pay for rent. With our Puget Sound region traffic problems, consider carefully how location will impact employee and customer access.

Operations: What do you want the space to do for your business? Do you consider facilities as a place to keep employees reasonably warm and dry or as a corporate asset on which one intends to reap some sort of financial return? Are your offices a recruiting tool? Are they intended to make a statement about your firm's stability, credibility or creativity? Understand what messages are being transmitted by your choice of location or building.

In the process of debating these questions, larger non-real estate issues can tend to surface, and differences in corporate priorities can become divisive unless skillfully managed. An example would be a professional firm some of whose partners believe their practice warrants high-rise view space with a \$70-per-foot build out, while others would prefer low-rise space and would put the \$8,500/annum/partner differential in their pocket (or their kids' annual school capital campaign.)

Timing: What is the best timing for the

company as a business and from the real estate market perspective? Ovid, the Roman poet-philosopher, referred to time as "the devourer of all things." He also observed, "At times it is folly to hasten, at other times, to delay. The wise do everything in its proper time." I would offer Ovid a job today, as he clearly grasps the essence of corporate real estate decision making.

The earlier you start the process of facility planning, the greater the chance of positive outcome. Commercial real estate goes through cycles, and vacancy rates and leasing concessions and rates fluctuate year to year. Real estate developers prefer long-term relationships with predictable, stable tenants.

When contemplating lease negotiations — whether in a new space or your existing space — come to the table well prepared. Understand with what and whom you are dealing. Ensure, as you hire a tenant representative, that he or she clearly understands your corporate objectives and values and is equipped to represent your best interests in their dealings with landlords and their leasing agents. This means negotiating thoughtfully, aggressively, but always fairly.

Remember, as the vacancy rates and markets change from tenants to landlords, people remember how they were treated.

For the best outcome, combine an understanding of your corporate priorities and objectives with a familiarity of your target real estate market and its best practices. And, to paraphrase that well-known admonition, "Do not attempt this at home. Best done by trained professionals."

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