



## GROSSMAN SERVICES



Published in Washington Technology Industry Association  
Member's Corner - Thursday, Oct 8, 2009

# Starting Early Pays Dividends Business Space Decisions

By Kevin Grossman

**B**usiness space decisions affect your employees, business functions, client perceptions and are a long term fixed cost. Running into an unforgiving timeline causes stress, disrupts your team and costs you money. Avoid the pitfalls and reap the benefits of market opportunities - plan and start the process with enough lead time.

Four main things that drive the timelines are; distinctive internal issues such as decision teams time and your business cycle, current lease terms and deadlines, changing market conditions and the Basic 5 Steps of every business space decision.

Calendar time ranges from a few months if you're a start-up taking as-is space to minimize costs, to a couple of years if you are a larger user with more complex requirements or if you see that purchasing a building is an

option. Generally, six to 18 months is good for most requirements. Ensure a successful process for your company by including the following components.

### **Distinctive internal issues**

You and your decision making team are the primary internal concern - the most critical and often least plentiful resource. Starting with enough time spreads the process out minimizing the impact on your schedule. Your business cycle needs to be accounted for - accountants don't move Q1, retail doesn't move Q4 - take into account your firms own unique cycles. Complex moving logistics, special technology lead time, design and build-out requirements all require thoughtful calendaring to avoid getting boxed in.

To preserve your ability to get the best agreement, incorporate your particular needs

and decision-making team into the process. Acknowledge the lead times and incorporate them to take full advantage of market opportunities.

### **Current lease**

Your lease has terms or omissions that can be dangerous – be aware of them. One common issue is an obnoxious holdover clause. In the absence of a new agreement with your current landlord, when your current lease expires the rent may increase substantially. Some leases have extreme increases of up to 400%. We'd like to think that the landlord wouldn't actually implement that clause but it is quite common and very expensive in lieu of addressing it ahead of time. It costs you in increased rent because you're moving and can't get out in time, or it costs you in lost leverage because you feel trapped into negotiating on terms with your current landlord that you wouldn't otherwise expect for this hammer.

Other issues are deadlines in your lease for expansion, extension, give-backs and other flexibility terms. I recently consulted with a client and identified a particularly bad extension clause. Their landlord requires 9 months lead time to execute your right not to renew for an additional three years. It's automatic, or they have to be out. The renewal rate is calculated by the landlord on a formula very much in the landlord's favor. You might think that in the high vacancy market of 2009/2010 the landlord would want to work it out, but if they have you in a contractual bind and they're hurting, they don't work in good faith. If you are past the deadline of the extension clause and don't have time to move, you're stuck. Time is your friend in this process.

Have a short abstract of all critical path items and deadlines from your lease – be sure you know your agreement and situation – and remember that verbal conversations with your landlord won't override your signed lease document if you get in a dispute.

### **Market conditions**

You generally are dealing with a time frame set from when you signed your last lease. If your firm is a larger (10,000 square foot plus) user with good credit and the ability to project your needs well, you can look at moving and rent offsets a year or so before the end of your current lease in exchange for a long term lease today. The new, vacant buildings will work aggressively with you. If you need more flexibility or are not as established or large, then going through a thoughtful process is your best approach to ensuring you get the best deal available at the time you need to be moving or renegotiating.

### **Basic 5 Step Process**

Using a basic 5 step process incorporating the earlier information will help you make the most informed decision. (see attached Leasing Process – General Timeline)

- Assess current situation and needs
- Identify alternatives
- Evaluate – RFP process
- Negotiate
- Document

### **Assessment**

A thoughtful assessment grounds your starting point. How's your current space working – size, functionality, location and cost? What would you change? If you like the space and it's working for you, renegotiation is of course

a viable option. The result will be best even for a renewal if you have the time and a process in place to move as a fallback – it keeps them “honest” in the negotiations.

You need a handle on future needs. Using an experienced space planner to help look at staffing, adjacencies, workflow/logistics and efficiencies is a valuable piece. It's very helpful in setting criteria for the search process and a key in assessing suitability of specific alternatives. Subjective criteria should also be in the mix; recruitment/retention, transportation/parking, client/customer perception, and amenities/neighborhood conveniences. This part of the process can be quick if your company is small and straight forward or can be scheduled to be spread over many weeks for a larger, complex requirements or very inclusive decision making organizations.

### **Identify alternatives**

Start broadly and narrow it down. A little flexibility around criteria can provide unexpected opportunities. There isn't a central list of space for lease – often the old fashioned drive around (or walk around in Downtown) produces the best starting list for the research. It takes time and work to determine options worth a site visit. Scheduling you and your decision team takes calendar time, so budget more time than you initially think for this part. Typically you'll need a month or so even for a small firm and the larger the need the broader and deeper the research required.

### **Requests for proposal process, evaluations**

Prepare an RFP that incorporates all the critical elements teased out of the process to-date. The responses will often vary widely.

Landlords have a wide range of situations and related tools at their disposal to get a deal done. New buildings have very different options than buildings with seasoned ownership and financing. Various buildings will be able to accommodate your layout, financial and non-financial goals quite differently. Narrowing the field and clarifying as you go, the key is to bring out the overall best fit for your company's needs.

You need an “apples to apples” comparison of the offers. Use net present value analysis to help bring them down to a single number that incorporates the terms offered and your opportunity costs. You can also list the subjective items, give them some weighting and use this tool to help rank non-financial pieces. All the information to this point provides a solid base for your final rounds of negotiations.

### **Negotiations**

With proposals and analysis you're ready for the final push. Pushing back with the best ideas from all proposals to the top two or three options will uncover the last bits of negotiating room for you. Keeping a level playing field while assertively going for what you needs provides the dual benefit of taking the high road in the process while getting the best deal worked out of the process.

One critical factor is to have a viable fallback. You're likely to have more or less desirable alternatives, but both for a safety net and as a negotiating strength element you should have a legitimate alternative option until close to an executed agreement. It can be your life saver if the top contender drops out for any reason – such as the adjacent larger tenant in the building wants the space at the 11th hour –

and it happens more than you hear about.

### Documentation

Now that the deal is worked out there's still the lease to sort out – often 20 to 40 pages of legalese plus the tenant improvement work-letter. Don't let the tedious nature of the lease review and negotiations keep you from digging in. Many critical points are in the lease that may not have been brought up. Especially for a larger or more complex user, getting a copy of the "building standard" lease as part of the RFP process is helpful. Using a real estate attorney familiar with market norms for terms and conditions in commercial leases is a good investment of time and money during this final work to get your lease done.

Completing the lease triggers the final lap of activity. The landlord gets the tenant improvements done. You finalize all the moving checklist items, and you should take some time to celebrate after the move-in.

### Wrapup thoughts

If your company is smaller or early stage you will be distracted by the process for 4 to 6 months by the end. If you're a larger firm or

have more complicated facilities need, it's probably 12 to 24 months and many hours of internal time to get everything worked out. At the end of the process, you'll be glad for the time you invested up front to plan it out and thoughtfully proceed - with enough calendar time to have the process work for you, not against you. Take full advantage of the best the market has to offer and position your firm well for the next number of years by starting the process with enough lead time.

### Additional note

Brokers generally work for landlords. There are tenant representatives that will work with your interests in mind, representing you in the transaction. Because landlords have budgeted in to pay brokerage fees to get their space leased, and because even a tenant's representative can share in that fee, you can get service on your side of the transaction and have the landlord pay for it – just be clear about who the person is representing, the scope of work they're committing to do on your behalf and the money involved, even if the landlord is paying.

**Business Space Decision Process Timeline can be downloaded from**  
[http://washingtontechnology.org/community/blogs/members\\_corner/attachment/760.ashx](http://washingtontechnology.org/community/blogs/members_corner/attachment/760.ashx)



*Kevin Grossman is President of Grossman Services, Inc. He's represented businesses in completing over \$400 million of facilities transactions in the Northwest. Kevin enjoys the inquisitive, strategic process that is required to truly serve the tenant clients' interests, and pulling together the appropriate team for each client's needs. He's worked with a wide range of firms, such as bootstrapped software startups in very modest spaces, professional service companies leasing nicely appointed class A space in downtown high rises and regional light industrial subsidiaries of international companies. Kevin values listening actively to clients then bringing his experience to the table to help them make well informed decisions.*