

Myths Associated with Renewing Your Company's Office or Industrial Lease

It seems like a relatively easy, “cut and dry” decision. Your lease is scheduled to expire within the next year or two. There doesn't seem to be anything terribly wrong with your space or the building. Your cost of space seems competitive from what you can tell, and you don't have the time, or patience to go through a full blown relocation. So, why not simply renew your lease?

CHALLENGES ASSOCIATED WITH RENEWING A COMMERCIAL LEASE

- ❖ **Disruption of Business:** Assuming that your space utilization, work flow and metrics have changed since the last time you addressed this space, a renovation or right sizing in place is always more disruptive than you think it will be.
- ❖ **Inefficiency:** A renovation of space around a user group that is “in place” will yield a final product that is 12-15% less efficient than an unoccupied space that is fully built out to your specs.
- ❖ **Captive Audience Theory:** As much as you may like your current landlord, they will inherently view you as a “captive audience” during renewal negotiations.
- ❖ **Less Flexible Lease Document:** Lease documents have gotten significantly more complicated during the past 5 to 10 years (since you negotiated your lease originally). Protections, practices and legal requirements have changed considerably. Landlords are far less open to making wholesale changes to existing lease documents than they are to new ones.

BENEFITS OF RENEWING AN EXISTING LEASE

- ❖ **Lower “Out-of-Pocket Costs:** You can avoid relocation and re-wiring costs.
- ❖ **Familiarity:** Your existing employee base will not have an issue with you staying in place. However, you likely won't enhance your ability to attract any top, new talent.
- ❖ **Less Disruptive:** A renewal can be less disruptive than a relocation if you aren't doing any significant renovations, expansions or contractions.
- ❖ **Cost Predictability:** You likely have a cost “pass through” history that has been somewhat predictable.
- ❖ **Early “Relief” on Costs:** During the last several years we've been in a “tenant's market” due to economic conditions. It has been fairly easy to leverage your tenancy in negotiations with your landlord for major concessions including rent reductions prior to your lease expiration date. That is changing rapidly across the U.S. and around the world as economics continue to improve. There has also been virtually no new, speculative construction anywhere in the U.S., and most other mature markets around the world for many years. This, coupled with the fact that, in most markets, upwards of 20% of properties in all categories are functionally obsolete, greatly reduces the effective supply.

TODAY'S MOST SAVVY CORPORATIONS VIEW LEASE EXPIRATIONS AS HUGE OPPORTUNITIES

- ❖ Improve productivity
- ❖ Better attract and retain top talent
- ❖ Align the space, and lease terms with the company's business plan
- ❖ Enhance employee collaboration
- ❖ Reduce overall costs
- ❖ Bolster continuity / disaster recovery
- ❖ Capture government incentives
- ❖ Adopt new space design and utilization metrics

WHAT TO DO

- ❖ Start the process early. We recommend a minimum of 18 to 24 months prior to lease expiration. Longer if it is a major site or specialized facility.
- ❖ Assemble the right, multi-disciplined team (HR, Finance, IT, Facilities, Real Estate, etc.).
- ❖ Apply relevant analytics to each aspect of the process.
- ❖ Understand your true current cost of space and utilization rate.

*Do you have concerns about an
upcoming Lease expiration?
Call Mike for a free consultation.*

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