Your Lease is Expiring in a "Hot" Market

The market pendulum has fully swung to "landlord favored" in the vast majority of markets in the USA and globally, and is likely to stay that way for several years to come. This shift, coupled with rising inflation (that will increase the cost of building operating expenses), means significant cost increases for corporations whether they utilize office space, warehouse/ distribution space, manufacturing plants or a combination of these.

While there is no single solution to keep your company's real estate costs in check, following are some proactive steps that you can take to minimize increases and create value to offset, and even significantly surpass, the magnitude of rising costs:

- Have a clear understanding of the company's overarching business goals, objectives and challenges. Corporate real estate, when expertly handled, can not only support but advance the company's stated goals and objectives and solve business challenges!
- Take a truly holistic view of the situation at hand. Too many CRE professionals get bogged down with rudimentary issues. Yes, the rental rate and building specifications are important, but the real value and exponential opportunities will be found in other areas (driving innovation, facilitating collaboration, enhancing efficiency and bolstering security & business continuity to name a few).
- Engage key execs from various departments early to develop a highly effective plan and a prioritized list of key goals and objectives. Finance, HR, Ops, Facilities, IT and Security should likely have a seat at the table. Too many projects get far down the road before a key department head weighs in and changes the direction, focus & velocity of a given project.
- Start early! Time is leverage. Many companies assume that, because they plan to renew a lease, they can start the process later than if they were planning to relocate. This signals to your landlord that you haven't done your homework on the market and that you are basically a "captive audience" that doesn't have enough time to affect a move without incurring significant Holdover penalties.
- Conduct a Digital Space Utilization Study. New programs and technologies provide far deeper and more meaningful information than the "old school" approach of analyzing key card data. Anticipating space needs in the context of company needs can be challenging without the right, timely information. Workers are no longer tied to a desk or a phone. They can – and do – work anywhere and everywhere. Thus, companies are increasingly challenged to re-balance the amount of reserved and open workspace to support those modern workstyles and bolster creativity, innovation and productivity.
- Don't assume that, because you have a good relationship with your landlord, or because you have been a long term tenant in the building, that you will automatically get a "good deal" if you renew your lease. Today's professional landlords are more sophisticated than ever. They have multi-disciplined teams in place whose job it is to maximize the landlord's return on investment.
- If you don't have a written set of specifications, metrics and processes in place, make sure that your team develops these in advance of the project kickoff and that all key departments weigh in early. This is your blueprint for success in these types of projects.
- Exercising an existing lease renewal right may or may not be in your best interest. Is there a fixed/ prescribed rate, or is it at "Fair Market Value"? If the latter, there are many different variations & nuances. In addition, most lease renewal options don't address several key concerns that will make or break the project at hand. The devil is certainly in the details.

- Making the assumption that “moving my facility is always more expensive than renewing” is not a good idea. Often, an outside, competing landlord is more motivated to attract you than your current landlord is to retain you. They may also have different debt covenants that allow more flexibility in rates, deal structure, business terms, etc. You may need less space or more space than you currently have. Or, you may want to change the configuration of your facility to better support how your business functions today. Renovating in place is more disruptive and less efficient than working with a clean slate of new space. On average, the result from reconfiguring an existing space vs. moving to a correctly sized space has a 16% efficiency differential in favor of the new space option. In addition, you can more often than not, fully offset your costs to relocate (including voice & data wiring, security systems, etc.) using various strategies that won’t adversely impact your new rent/ cost structure.
- Are there clauses in your current lease that are not aligned with your company’s best interests or that are substandard given your company’s credit? Just because you choose to renew a lease, doesn’t mean that you can’t open those items for renegotiation.
- If you are seriously considering staying in your current space/ building, use reverse analyses to show your landlord the true value of your tenancy and the real costs that they would incur if they ultimately need to replace you. This exercise also serves to contextualize where you should end up in the negotiation.
- Leverage Labor Analytics to super charge your results. The cost to replace a highly skilled, desirable employee that is lost to a bad site selection or design decisions will run into multiples of the employee’s annual salary and benefits.
- Explore government incentives from competing/ bordering states wherever practical. While this process can be long and arduous, a skilled practitioner can lead you through it with little cost or frustration on your team’s part. A good government incentives package can dwarf the rent/ total cost differential between one location and another. You may also be eligible even if you elect to stay in place.

Need help with your upcoming lease renewal?

Call Mike for a free consultation.

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