The Top 10 Mistakes Companies Make When Leasing Space

ATLANTA LEASING
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As tenant advisors, we often find companies making the same mistakes while going through the leasing process. We have come across a website, Openofficespace.com, that outlines the Top 10 Mistakes. All of these mistakes can, and should be, avoided and are detailed by Atlanta Leasing & Investment in the subsequent pages.

1. Neglecting to determine current and long term priorities

2. Choosing the wrong broker, or not using one at all (a non-brokerage website wrote that…)

3. Not giving yourself enough time to fully go through the process

4. Making your decision based solely on price

5. Not understanding all of the cost associated with your space

6. Choosing the wrong location

7. Not properly estimating the amount of space needed by your company

8. Signing too short or too long of a lease

9. Underestimating the preexisting condition of the premises or suite

10. Not asking for enough Landlord incentives

Mistake 1- Neglecting to Determine Current and Long Term Priorities

Neglecting to determine current and long term priorities is the most significant mistake a company can make when looking for office space. Sit down, take a breath, and write out what is going to be important to you and your company when it comes to your space. The below points can act as your checklist when determining what is important for your space.

- **Corporate Image** – What image is important to convey to my customers, my prospects, and my employees?
- **Layout of the Space** – What type of environment does my business call for in the space? An open environment that creates collaboration amongst my employees, or a more traditional environment where certain employees have their own private offices for privacy.
- **Budget** – What can I afford? Does my budget match up with my corporate image?
- **Growth** - What's the future growth of my company? Will this space put unwanted constraints on expansion? Does this complex give me additional options to grow my business with limited interruptions?
- **Technology** – Is there a certain technology that my business needs that is only available in certain locations? (i.e. Data Center, Electrical Capacity of a building, or Backup Power)
- **Competition** - Where is my competition located? Is there a reason they are located there? Can I be in the same building or complex as my competition? Should I be near them?

These are all points that need to be considered when looking for space, and I am sure that there are more that pertain to your specific business. Hopefully, this list will get you started on determining your current and long term priorities when it comes to your space.

Mistake Number 2 – Choosing the Wrong Broker, or Not Using One at All

Choosing the wrong broker, or not using one at all, can be a costly error for any company and one that happens on a regular basis. Before we begin, I would like to point out that the original idea of the Top 10 Mistakes came from a website that Atlantaleasing.com has on their blogroll. The Open Office Space blog is a great resource. Now that we have that out on the table, let's begin our analysis on this mistake here in the Atlanta Market.

Not choosing the right broker can be a costly mistake for several reasons. One, an initial space search or renewal can take anywhere between 60 days to 2 years depending on several different factors. Either way, it is a significant amount of time to be dealing with someone. Make sure that you and your broker get along because it can be a miserable experience if you don't. Two, a company's space lease is usually a company's 3rd largest expense. The right broker will be able to reduce a big expense in your company's bottom-line, and should further be able to protect your company's interest on non-economic terms as well. Finally, make sure your broker knows the submarket in which you are most interested.

90% of all leases signed in Atlanta are done so with a broker involved on both the landlord and tenant side of the negotiations. However, I still run into companies that insist on looking for space and negotiating their space renewals on their own. Their main reason for not hiring a broker is because the decision maker thinks they will save money by not having a broker's commission factored into the deal. This reasoning is valid because there is technically a 2% savings on the expenses a Landlord will have to pay for that broker's commission. However, as I tell my clients, a good broker will generally produce on average a 10% – 15% improvement on the deal terms they have received from the Landlord. Also, isn't a C level person's time worth more then a 2% savings? Finally, a company usually only deals with their lease every 3 – 5 years, while a broker deals with it every day. Who do you think is more qualified? At the end of the day, by hiring the right broker you will save time and money on your next search or renewal.

Mistake Number 3 – Not Giving Yourself Enough Time to Fully Go Through the Process

Over and over again, I run into clients that have not given themselves enough time to fully go through the leasing process. What do I mean by that? They haven't given themselves enough time to explore the market, in order to find comparable alternatives, and use those alternatives as leverage against their current Landlord. Brokerage firms will argue about when a company should start exploring the market. Some say 2 years before your lease expires, others a year, and still others may say 3 months before your lease expires. The real answer is that it depends on the company size, internal goals, and future growth needs. I tell my clients that you should allow for 3 – 6 months preparing for a move. With that in mind, if you first to come to your existing landlord with 3 months left on your lease, that Landlord knows that you don't have enough time to move out of your space before you go into the holdover period. Thus, you lose your leverage to obtain the best deal for your company. Here is sample timeline that includes all of the phases a company needs to consider when going through the lease process: [http://atlantaleasing.com/Timeline.](http://atlantaleasing.com/Timeline)

Mistake Number 4 – Making Your Space Decision Based Solely on Price

Making your space decision based solely on price is one that more and more companies are making because of the current economic situation. It is important to understand the other factors that should go into the decision on where to house your business. Price should not be the only factor that a person bases their space decision upon. If it is the only factor, more often the not, it will come back to bite you. Here is a list of other factors, outlined on Rofo.com, that should be considered when determining your future space location:

- **Location, Location, Location**: Not only a real estate adage, but a fact of life. The location is usually described as the either the biggest benefit or the biggest negative.
- **Commute Patterns**: Take a preliminary survey of your company's thoughts on their current commutes and use Rofo's tool to determine how the new location might affect their commute pattern.
- **Amenities:** What restaurants and coffee shops are available nearby? Being in an isolated business park can be a very bad situation for the comfort of employees. At times in cannot be helped, but being in close proximity to the amenities employees use during their lunch break can be a huge recruiting advantage. Please see our Rofo Amenities tool to look for nearby amenities as you search for space.
- **Safety**: What is the neighborhood like late in the evening? Have there been office or car break-ins in the neighborhood recently? Would a female employee feel comfortable walking to their car or public transportation after working late on a project? All of these issues should be considered when considering your next location.
- **Layout of the Space**: Is the layout of the space desirable? Is there good separation between the lobby and the work space? Is there separation between the kitchen and the work space so food smells don't permeate the office? Is there good natural light?
- **Image of the Building**: The question depends on how you are trying to present yourself to your clients and potential employees. If you are a law firm that helps with class action suits, it might not make sense to have the top floor of the nicest building in town. If you are the high powered corporate firm, it might be absolutely necessary to display that image. The location, layout, and feel of your building and space will leave an impression on your visitors and should be considered in your decision making process.
- **Parking/Public Transportation**: The proximity to public transportation and affordable and convenient parking are extremely important. Many of your key employees might need quick access to transportation as they visit clients while others need convenient and affordable ways to get to the office. The more transportation options the better.
- **Recruiting:** Will your location and building aid or hamper you in your recruiting efforts for top talent?
  How will the location affect current employees?
- **Expansion**: Will your location allow for easy expansion? Is there space available nearby that can work if there is not space within your building?
- **Building Ownership & Maintenance:** Is the ownership local? Is the HVAC system consistently broken? Your landlord's involvement and attitude and responsiveness towards tenant repairs should be a critical element of your building decision.

Mistake Number 5 – Not Understanding All of the Cost Associated with Your Space

Not understanding all of the cost associated with your space is an easy one for companies to commit when trying to determine their future location. This is because most tenants become so focused on the rent that they fail to see the other expenses that go along with their space. Here is a quick check list of the basic expenses tenant needs to understand prior to signing a lease:

- **Operating Expense Pass Throughs** - If you are signing a full service lease, find out what your base year is going to be on the lease. Then look through the building's historical operating expenses, and see how much they have gone up over the years. The increase in expenses, above a tenant's base year, is going to be passed through to the tenant. This expense can be a significant one that Tenants don't realize until later in their lease term.
- **IT/Communications Expenses** – Find out how much it will cost to set up your internet, phone systems, intranet, etc. Whether you are expanding in your current location or moving into a new location, this is something that a tenant needs to determine before a decision is made. Talk to your IT person.
- **HVAC/Supplemental HVAC Costs** - Will you be running your operations after hours? If so, what is the cost to have the HVAC running during that time? Will your data/server room need supplemental HVAC? If so, what is the cost? Will the Landlord pay for it? Ask the question before signing a lease.

- **Furniture** - Will you need different furniture then you have now? If so, should it be new or used? Or, should you just move your existing furniture? How much is it to break down old furniture and move to a new location? You might be surprised by the answer, but either way you need to speak with a furniture vendor to understand the cost of both options.
- **Moving Cost** - If you do move, what will it truly cost you to relocate your business? Probably around $4.00 – $6.00/Square Foot.
- **Insurance** - Do you have the right insurance policy that matches up with the lease requirements? If not, how much will it cost to increase your policy? You should definitely have your insurance agent review the lease prior to signing it.

These are some of the basic costs associated with your space that most tenants do not think about prior to signing a lease. There are others, but this will get you started.

Mistake Number 6 – Choosing the Wrong Location

Choosing the wrong location is one that happens more than a person would think, and happens for several different reasons. Before I get into several of the reasons why it happens, I'd like to point out a quick observation. Nine times out of ten, I've found that if I were to map out where the decision maker lives and the location of the office, these two points tend to be very, very close to one another. Now, I am not saying anything by this statement. I am just pointing it out. I'd also like to point out that if you fall victim to this mistake, you usually can't change it for 3 – 5 years, or longer.

Here are a several reasons why a company may end up choosing the wrong location:

- The decision maker who made the final decision on the office location is no longer with the company, and the location is nowhere near the other employees.
- The traffic is worse than expected and a person failed to realize this because the only times they toured the space were during non-peak traffic hours.
- A person failed to check into the tenant mix of the building, and there are tenants within the building that make it an unpleasant experience.
- A location is not centrally located for valuable employees, and a company loses these employees to other jobs because of a better location.
- Traffic patterns change, making it difficult to get in and out of a building. An example of this would be a bridge being renovated, or the number of traffic lanes being reduced due to streetscape being added.

Whatever the reasons for a location being the wrong one, there are several very easy ways to try and prevent this from happening.

- Perform an employee map – Have your broker plot out the addresses of all your employees, and try to find a central location.
- Make sure you drive around any prospective building choices during peak traffic hours.
- Ask for a list of all the tenants within a prospective building, and review it.
- Make sure your broker contacts all the necessary authorities to understand if any traffic "improvements" are going to be made near your prospective building choices.

Mistake Number 7 – Not Properly Estimating the Amount of Space Needed

Not properly estimating the amount of space needed by your company is one of the more frustrating mistakes a company can make when leasing space. This mistake either wastes a company's money on unused space, or it can hinder a company from growing because there is no room to hire new employees. Either way, if significant term is left on the lease, this could be a problem for any company. How do you avoid the problem?

One way to avoid this problem is to hire an architect to draw a space plan for your company, before you go out and tour the market. Let them know exactly how you'd like your space to lay out, what your growth needs might be in the next 3 – 5 years, and which departments of your company need to be close together within the space. By having a professional do this in the beginning, you'll usually be able to avoid the pitfall of taking the wrong amount of square footage. Also, if you are worried about the cost, don't be. For an architect to prepare a space plan for you, it should cost $0.10 – $0.15/Rentable Square Foot. Therefore, if you are leasing 10,000 rentable square feet, then it should cost $1,500.00. One thing to note as well, you can usually get your new Landlord to cover this cost with their Tenant Improvement Package once you sign a lease.

The second way to prepare for this pitfall is to allow for it within the lease. As a tenant, you should make sure that you have favorable lease language that allows for you to get out of a lease if the landlord cannot accommodate your growth needs. If your company is downsizing, then you need to make sure that you have favorable lease language that allows you to sublease your space with the least amount of interference from the landlord. Some growth or downsizing can be unforeseen, and preparing for it within your lease will allow your company to avoid being stuck with too little or too much space.

Mistake Number 8 – Signing Too Short or Too Long of a Lease

In my experience representing tenants in metro Atlanta, I've seen these two mistakes all too often.

Signing too Short of a Lease Term

There are several reasons why a company may want to sign a short lease term. 1) They don't understand their future growth needs, and don't want to lock into a long term lease that hampers their growth. 2) It is a down economy and the owners don't want the liability of a long term lease in case their business does not make it through the economic downturn. 3) The company's main goal is to be purchased by another company and a long term lease could hamper those efforts.

All of these reasons are very valid reasons to sign a short term lease. However, it might be a mistake because of the given market the company is in while signing the lease. For example, during the last few years we have seen one of the best markets for tenants. Landlords were doing everything in their power to either keep an existing tenant or entice a new tenant to move to their building. If you sign a short term lease, you are playing right into the hands of the landlord. Sure, you'll get a great deal, but when that lease ends in 2 – 3 years, the market will have recovered. By the time that company renews, the rental rate will be much higher than what the company was previously paying. Why not take advantage of the market? A company should lock into a great rental rate for 5 –10 years, and allow for certain provisions in the lease to get out early if needed. Landlords are more willing to have termination clauses in their lease because of the down market.

Signing too Long of a Lease Term

Conversely, during the good times companies find themselves signing too long of a lease term. Why? Because they are just thinking about getting a lease signed and moving on to their core business. Generally, most tenants don't stop to think about growth needs and how to accommodate them. A company also doesn't think about how to protect themselves against the lease if they begin to struggle. During these times, landlords are able to push for longer 5 – 10 year lease terms to be signed by tenants. These leases have very few, if any, termination clauses for a tenant to get out of a lease, and a tenant is usually paying the highest rental rates. If you can, sign a shorter lease term (3 years). The market is cyclical, and it will be down again soon enough. Often times, when a company signs a long term lease in the height of the market, that company is stuck in that lease when the market turns into a tenant's market. Therefore, when their lease finally expires, it usually is a Landlord's market again.

Mistake 9 – Underestimating the Preexisting Condition of the Premises

Underestimating the preexisting condition of the premises is an easy one for a company to make when searching for space. Most individuals, understandably, don't know the cost associated with their space build-out. Why would they? Companies usually only deal with their space every 3 to 5 years, and move into new space even less. Some individuals understand the basic principles of the interior build-out of space. For example, they know it is less expensive to demo a wall than to build a wall. They know that if they can find a space with a similar layout to what they are looking for, then they can save money. Etc… However, here is a list of items that most individuals fail to connect to their potential space build-out:

- **Data & Cabling** – Is the potential space currently wired? If so, can it be reused? If it can't be reused, who pays to have the wiring removed? If the space isn't wired, how much will it cost to wire it?
- **Power** - Is there enough power coming into the space to run my business? If you are planning to put cubes into the space, is there existing power available to plug the cubes in?
- **HVAC** - Does the space have a data/server room? If so, does it have a separate HVAC unit to cool the room? If not, does it need one? If the room does need a separate HVAC unit, who pays for it?
- **ADA Codes** – Is the space up-to-date on all of the ADA codes? If not, will it need to be updated? If so, who pays for it?

Make sure to watch out for the above list, and you'll be able to avoid unforeseen costs associated with your new space.

Mistake 10 – Not Asking for Enough Landlord Incentives

Not Asking for Enough Landlord Incentives is one that companies not using a broker to help with their space search, often make when signing a lease. This is because most tenants don't do this on a regular basis and won't know about all of the incentives that a potential new landlord can, and often does, offer to entice an office tenant to move into their building. Furthermore, a landlord may offer incentives to tenants not using an office broker, but these incentives generally do not match what market incentives are for a comparable office building. To avoid this mistake a company should first hire an office broker. However, just so you can know what type of incentives landlords should be offering to you as a tenant, here is a list of potential landlord incentives:

- **Free Rent** - This will vary depending on the length of term, how much tenant improvements are going into the space, a tenant's financial stability, and a host of other factors. The important thing is to be aware that free rent is out there.
- **Tenant Improvement Allowance** - How much money a landlord will invest into space build-out depends on a host of different factors, much like the ones in free rent. An important question to ask when evaluating a new office location: Will the TI allowance cover the cost to make my new space just the way my company needs it to be?
- **Moving Allowance -** Some, not all, landlords will offer a moving allowance to help with the cost of a physical move. Remember, it generally cost a company $4.00-$6.00/Square Foot to move an office. A company might be able to get a landlord to chip in on that expense.
- **Leftover Tenant Improvement Allowance -** Again, some, but not all, landlords may allow you to use unused TI dollars towards other cost associated with your office space. So ask the question.

If you have chosen the right broker, then they'll know what the market norm is for the above incentives. There are a few others, but this will give you the basics to get started.