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Lease rates are only part of the story for tenants

Too many office tenants get wrapped up in rental rates when it comes time to renew or relocate.

It may sound ridiculous to overemphasize the fiscal impact of square footage rates over a three- or five-year lease period.

But tenants routinely do. They perceive the rental rate as the end-all without considering what other elements might be involved in the totality of the deal. And there are always other elements.



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Here are eight to look out for when reviewing the lease:

Building Operating Expenses

It costs landlords big dollars to operate and maintain their buildings. There are scores of recurring costs that factor into their profit models other than rent. Any one of these costs could be handed down in some part to tenants. These "pass throughs" can include taxes, insurance, landscaping, snow removal, security and utilities, among many others.

Most landlords limit their financial liability by employing "expense stops." This is when the landlord agrees to pay an operating cost up to a specified threshold where it then passes all additional costs on to the tenant.

Let's say a physician or attorney, for example, offers its patients or clients extended office hours. Those suites must be adequately heated and cooled, even after hours. Somebody has to pay for that. The tenant better know at the front end exactly who is responsible for those costs.

Tenant Finish Allowance

This is usually a dollar per square foot amount used to improve the tenant's lease space. Tenant improvements can include construction, design and engineering costs, carpet, paint, millwork, doors and hardware. The landlord already has an allowance built into its budget, regardless of whether or not the tenant asks for any of it. So for the tenant, it is a "use it or lose it" proposition.

Every tenant should take full advantage of whatever the current market will bear when it comes to improvement dollars. And that includes renewing tenants, as well.

Space Measurement

It is astounding how few tenants actually know how the space they rent is defined and measured.

"Usable square footage," in essence, is the amount of space on which the tenant can set its furniture and equipment, and where people work each day.

"Rentable square footage" is the usable square footage plus the tenant's pro rate share of common elements of the building, like lobbies, hallways and restrooms. Rentable square footage is specifically what tenants pay for each month.

There are other methods of measurement that apply to full-floor and multi-floor tenants, and it can get complicated. Tenants should always know who is doing the measuring, and what standard they are using.

The landlord should have accurate and current documentation as to how the space was measured, and what exactly is included. Most building owners today use the BOMA (Building Owners and Managers Association) standard of measurement,

but if another has been used, it should be clearly noted in the lease.

In fact, tenants would be wise to hire their own interior architect or other qualified expert to verify the landlord's documented square footage.

Parking

Not all tenant parking is free. In some cases, none of it is free. Some landlords allot a certain number of free slots and charge a monthly fee for each additional slot. Covered or more secure parking is usually more expensive.

Tenants should seek an accepted parking ratio -- the number of slots per one thousand square feet of lease space -- and negotiate according to their specific needs.

Right of Relocation

Any given lease may stipulate that the landlord can relocate a tenant to another space within the same building. This might not seem like an overwhelming inconvenience on the surface. But consider all of the hassles even a small tenant must endure during the relocation process.

The disruption of an unintended move to another space even within the same building could be crippling to a tenant, not to mention the associated expenses.

Option to Renew

Most tenants tend to assume that they can renew their leases when the existing term expires. This is not always the case, especially when the market turns in the landlord's favor, which is happening right now.

Without an option to renew written into the lease, the landlord has no obligation whatsoever to allow a tenant to stay. Again, this sort of unplanned disruption could be disastrous for any tenant's ability to operate.

Holdover Provisions

What happens to the tenant if it stays in its space after the lease period expires?

In some cases, the landlord will allow for a month-to-month lease period to commence, but at dramatically inflated rates. This provision will also state how much notice the landlord will offer the tenant before eviction.

Subleasing Provisions

Any given tenant's space requirements can change dramatically during the lease period. Sometimes subleasing becomes a fiscally attractive option, if the landlord will allow it.

Can the tenant move out altogether and sublet its entire space, or will it be in default of the lease? Can it sublease just some of the space to another tenant? What would the rates be? What kinds of restrictions on the type of sublease tenant might be stipulated? How long is the approval process?

Almost anything can be negotiated into or out of the lease, including the eight critical elements mentioned here. Unfortunately, tenants either underestimate these conditions or ignore them altogether.

Tenants who don't ask for specific concessions when it comes time to negotiate should never expect the landlord to offer any.

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