

SPECIAL REPORT

Office leases can be an asset or a liability

Start planning early, do your homework before shopping for space

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Most every business leases office space at some point, and the real estate decisions executives make can cause the office lease to become an asset or a liability.

To be successful, today's companies must be dynamic, constantly evolving and adjusting to the ever-changing market conditions. Perhaps one of the most critical elements of a company's business model is its commercial real estate strategy. With approximately 180 million square feet of office space throughout the Dallas-Fort-Worth area, there are going to be numerous opportunities and potential solutions.

Here are a few suggestions that will help you formulate your company's commercial real estate strategy:

■ *Go to the experts.* Every business seeking office space can benefit from professional brokerage services. A skilled brokerage team can help define your space requirements and your company's short- and long-term operational and financial requirements. They will also help reduce the timeline for the leasing process, which can be anywhere from three months to two years.

Relying on a broker also allows company executives to focus on running their business, while their broker narrows the office selection to a targeted number of options and leases with building owners.

■ *Make your space a priority.* Business moves more rapidly than ever. Consequently, companies require similar speed in completing transactions. In tight markets, as we are in now in some Dallas submarkets, without quick turnarounds, opportunities are lost. Plan ahead and be proactive. By doing so, you could save money and reduce occupancy costs.

■ *Start early.* A tenant should always watch for market opportunities, and

if possible, begin the evaluation process at least one to two years (or more) in advance of a space need or lease expiration.

For example, if a company has two years remaining on its lease and is in the Uptown submarket where space is tight and rates are increasing, it is wise to begin exploring space options early, because rental rates could be 25% higher in 15 months as the company's lease expiration approaches.

Industry reports say that more than 4 million square feet of sublease space is coming online as many industry sectors, including the housing and mortgage industry, are being impacted by the subprime market. There may be opportunities for your company in this area.

■ *It really is about location.* The founding tenet of real estate still holds true today, except that location now must include criteria that also is focused on proximity to the labor pool. Companies have to compete for employees today, and proximity to a desired labor base is critical.

In addition, easy access to restaurant and retail amenities and multiple transportation modes such as airports, freeways and light rail is still a critical aspect driving location decisions.

■ *Be wired.* Be proactive and get good technical advice early on. While building out your space, you should install as much capacity for voice/power/data as possible. In the pre-construction phase, the cost is significantly reduced versus installing wiring after the space has

been constructed.

The benefit of wiring the space for all possible future needs provides for maximum flexibility without incurring any future costs.

■ *In good times and in bad.* When negotiating a lease, choose an environment that is appropriate for your needs, and an owner that matches that standard. Is the landlord financially solvent and committed to maintaining your office environment throughout the economic cycles? You need the same standard of service throughout the life of your lease — whether it's Day One or Year 10.

Building ownership has taken on a new shape in the past few years, as more private equity firms are becoming landlords. Not surprisingly, this is changing lease dynamics, the availability of tenant improvements and concessions. Delivering value for the money is a primary focus. Today, transaction economics take center stage, and landlords are competing based on a tenant's total cost of occupancy.

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