

Get the best deal

A look at what to consider before you sign your next building lease

INTERVIEWED BY MARK SCOTT

Property managers can use their experience negotiating lease agreements to outmaneuver business owners who are in a hurry to get a deal signed and get moved into their new office space, says Daniel K. Wright II, Attorney at Law for Brouse McDowell.

“You need to give yourself plenty of time to negotiate a fair deal,” Wright says. “You never want to lose leverage by having the pressure of an expiring lease looming in the background. It forces you to speed everything up and that’s when things get missed, things that could come back to haunt both you and your business.”

Northeast Ohio has seen its population shrink considerably over the years as the region’s economy has continued to struggle, resulting in a steady loss of both businesses and jobs. It’s created real estate opportunities, however, for companies that remain and are looking to make a move.

“If you allow yourself the time to get good advice and make the best deal for your needs, you as the tenant can take advantage of the market,” Wright says.

Smart Business spoke with Wright about things to consider when relocating your leased office or industrial facility.

Where’s the best place to start when looking to relocate your business?

Have a trustworthy and experienced fee-only real estate adviser who knows the local market and has experience in your particular industry. Fee-only means you want an adviser whose compensation is not dependent on the amount of rent you’ll pay for the space. That is important when rents are falling.

Get your attorney involved early on to help structure the negotiations and the terms of the deal and coordinate with your

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WEBSITE: To learn more about effective negotiating tactics when relocating your business, visit www.brouse.com.

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real estate adviser. You need this group to function as a team.

You want legal counsel with you at the table as the deal is being negotiated to ensure your best interests are being taken into account. If you wait until the end and items are missed, you’ll waste both time and money as you back up and try to rework the deal.

Put together a detailed, non-binding term sheet or letter of intent that contains important economic and business terms so as to frame the deal. This can be particularly helpful when comparing competing offers on an apples-to-apples basis, and to clarify concepts or terminology that may lack clear definition.

How can the matter of rent vs. total occupancy cost cause problems?

The real estate industry has gone to great lengths to build rent increases into leases in today’s market for operating expenses and more nebulous fees, which is the reason for the previous point about clarifying terminology.

A simple one that people often run into is the calculation of rentable square feet versus usable square feet. ‘Rentable’ is a euphemism that is used by landlords to charge a tenant for rent on portions of the building that are outside the leased premises.

On top of that, the method for measuring square footage usually includes unusable space that may be occupied by HVAC units or columns in the building. So you end up paying for space that you can’t use, as well as common hallway space and a portion of the bathrooms adjacent to your location.

These are things you need to check out during the negotiations. Get a copy of the lease so you and your team can review it. Measure the space yourself and see what you’re actually getting before you get locked into a multiyear deal.

What are some other costs to consider?

Get a quote for operating expenses per square foot over the past three years, determine what the increases have been, and try to negotiate a cap so that you can budget for these increases over the lease term.

With construction, the landlord will often build out the space however you want it. But it is typically amortized over the lease term and included in the rent, so it can add up quickly. Put tight controls in place over the scope of and schedule for the work. Require the landlord to solicit multiple bids. And in some cases, consider finding a knowledgeable design or construction professional who can work on your behalf to oversee the work and keep everything on track. ●