

How technology companies can get rid of excess space

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By Mark Cote

With Greater Boston office vacancy rates hovering above 20 percent and many companies of all sizes and industries still downsizing, there are many opportunities for tenants seeking space as well as challenging times for tenants who have empty and excess space.

The problem is more severe for high tech companies that often leased more space than they actually needed and signed leases at the peak of the market. In tough times, when every cent counts, these companies are faced with a daunting challenge: how to dispose of their excess space.

In a nutshell, they have two options. First, find an amicable solution with the landlord, pay a lump sum and get out of the lease. This option is more complex than it sounds. Given the higher vacancy rates and limited demand for space in today's marketplace, landlords are unlikely to accept this.

The second option is to sublease the extra space to another tenant or subtenant that is either expanding, looking for bargains or simply wants to move to another location to take advantage of the market conditions.

But subleasing has its challenges, too. Where should one start?

The first step should be to secure your landlord's cooperation upfront. It will save delays later on. Many companies overlook the fact that a sublease is a three-party transaction: landlord, sub-landlord and subtenant. Some lease provisions don't allow subleases; others require permission from the landlord or landlord as a third party. Landlords may also opt for a direct lease with the subtenant and may completely free the primary tenant from its obligations. A legal review of lease documents is highly recommended.

Once cooperation of the landlord is achieved, the next step should be to assemble a project team to assist potential subtenants in their due diligence: initial test fits, interior design, infrastructure

lists, telecom specifications, etc. The team should consist of an architect, contractor and telecom expert. Have floor plans, cooling, electrical and wiring specifications as handouts for prospects and as PDFs for marketing.

You should also be clear on your deal terms. Unlike in a market at equilibrium, advertised rents should be near the deal rent you're willing to do. Your broker should have a good understanding of the existing market and also a fair vision of the upcoming market conditions. Existing and future market conditions play an important role in making or breaking a lease deal. Obviously, the bottom line is how much rent you're willing to accept or can afford to charge.

When subleasing space, keep in mind that you're not only leasing the space alone. What about your furniture, technology infrastructure and other investments you have made into the space? Should existing furniture and equipment be part of the rent? Can you afford to offer them free rent in order to close the deal? Companies who try to recover additional costs for furniture and fixtures in the space put themselves at a disadvantage compared to the competition.

The key is that you should determine your "pain threshold" on sublease recovery ahead of time in order to know which deals you're prepared to move forward with. Realize that not all deals make sense and have your criteria established ahead of time to strike when the right deal parameters are there.

Here are some additional tips for subleasing your space:

- Consider dividing the space into smaller blocks. In general, it is easier to sublease smaller blocks of space than large blocks. There is healthy demand in all markets for tenants in the 3,000 to 5,000 square feet range.
- Make sure your writeoff charges for sublease space accurately reflect expected sublease income.
- Make unsolicited offers at attractive rents for tenants who have toured and ruled out your space.
- Don't try to predict the real estate market ahead of time. Know your pain threshold. Be clear on specs and rent recovery — assess the subtenant's ability to pay rent and for how long. Chase active deals and tenants.
- For high-risk subtenants, keep your transactions costs low, review projected burn rates of subtenants and formulate appropriate security deposit.

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