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While the Going is Good

How To Negotiate a Real Estate Lease

The commercial real estate scene varies from region to region, but chances are a large amount of office space in your area is currently waiting for its next tenant.

With more leasable office spaces than creditworthy tenants to take them, many landlords are offering lower rates and other incentives.

Is it the right time for you?

If your not-for-profit organization has good credit, there's a real chance you can find a more suitable — perhaps even larger — space with attractive lease terms. Just keep in mind that leasing companies and landlords want to firm up an arrangement fast. So poise yourself to act

quickly once you find the deal that's best for your organization.

Conversely, if your not-for-profit is currently in a space it loves, it's probably a good time to try to negotiate better lease terms.

What will it cost?

Before taking the plunge, you'll want to be sure that your not-for-profit has the financial capacity to incur the new leasing expenses and is comfortable with the long-term projections. You'll also want to

calculate what a move will cost your organization. Some costs that typically accompany the signing of a new lease (or sublease) are:

- Moving expenses,
- Construction costs for building out your new space,
- Legal fees for a review of the lease, and
- Paying the first month's rent and a security deposit.

A less calculable cost is the manpower hours it takes to find a new place, conduct lease negotiations, and prepare for the move. On the plus side, in a tenant-friendly market a landlord may be willing to pay for some of your upfront construction and moving expenses.

What are the terms?

Many considerations go into negotiating a lease agreement, and there's a great deal you need to find out before signing a lease. Here are some questions to ask:

- Is the lease payment calculated on usable square footage instead of rentable footage?
- Does the agreement allow your organization to assign the lease to another party?
- Does your organization get a few months' free rent at the start of a lease?
- Does the agreement allow you to sublet the leased space?
- Is a grace period allowed between the lease's signing and commencement dates?
- Does the lease shift the burden of paying for subsequent government compliance to the landlord?
- Does the agreement include an option for expansion and at a stated price?

- Is the first year of occupancy used as the base year for calculating common area maintenance (CAM) charges?
- Does the lease renewal option have a fixed rate?
- Is a holdover option and a stated price included in the agreement in case your organization needs to stay for a short time after your lease expires?

These are only some of the matters you'll want to address during lease negotiations. Your CPA can help you with financial projections. And whether you negotiate a new lease — or extend your current one — it's important to have an attorney review the lease before you sign it.

And if you don't want to move?

Maybe you don't really want to move, but your not-for-profit is focusing on cutting short-term costs immediately. If so, consider negotiating with your current landlord to stay in your current space.

If you do decide to stay put, find out if your lease can be refinanced to lower your monthly payment. But if you go this route, consider that the real estate market is likely to be higher when your new lease term is up, and that the real estate environment could be quite different — you may be missing your opportunity to lock into a bargain.

Financially savvy

Whether you find a new home for your not-for-profit or renew the lease you have, exploring options in the current market is what's important. Office space likely is one of your top expenses, so keep a close eye on it. **h**

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