

How to Evaluate Your Office Leasing Needs

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Introduction

Leasing smart is an integral part of your practice being on the **Road to Success!** Office space is often the second largest operating expense of most law firms today. If that is your case, perhaps it is time to renegotiate or find lease space more in line with the needs of your firm. Plan for the future. Make sure your lease takes into consideration your firm's **future** needs. While taking our suggestions into consideration, please keep in mind that leasing requirements for each firm will vary.

Helpful Lease Terms

Following are definitions of some commonly used lease terms. These definitions are meant to give you some foundation for evaluating a lease.

Actual Rent is comprised of net rent plus operating expenses, and real estate taxes assessed on the building.

Net Rent is the actual amount paid for the space.

Operating Expense is the cost of operating the building. Be sure and set the operating expense high enough to prevent substantial increases in future years of the lease.

Real Estate Taxes should be based on a fully occupied building and representative of other comparable buildings in the locality.

Net Cost is the same as net rent. It is the actual amount paid for the space. DON'T be sold by "cheap rent"; often this may be the net cost before operating expenses and taxes are added.

Gross Cost is the amount of money you pay for the space leased, common area spaces, operating expenses, and your portion of the real estate taxes on the building. A good rule to remember is that you should pay for taxes and operating expenses of the building based on full occupancy of the building. KNOW what your actual rent with gross costs will be, and what services are actually included in your gross cost.

"Stop-Gap" is a provision that can be made in a lease that prevents operating costs from exceeding a fixed amount (usually percentage) in any given lease year. This type of provision can be beneficial to you!

Market Rent is a term used for comparable space, in a comparable building, in the same lease area.

Arbitration Provision is a provision in the lease which allows you an opportunity to bring in an independent person to help you and the Landlord agree upon the market rent or other issues and disputes.

Options to Consider

Long Term Options: Locking in long-term rates at competitive prices while still keeping provisions for your firm's safety net -- i.e., lease reduction or lease expansion options are a good concept to plan for the growth of your firm. This is especially important if you are just starting out and are not certain about how your firm will grow.

Right of First Refusal Option: Everyone hopes to see their firm prosper and grow. On the other hand, everyone dislikes the move that is often necessitated by the growth. Moving is expensive! It is better to get a right of first refusal on any empty space that adjoins your current space. This way, if you grow unexpectedly, you already have an option to lease adjoining space--no expensive move or costly change of address!

Space Reduction Options: The lease should also include clauses dealing with issues that are important to you in the present and the future, such as subleasing, assignment provisions, space reduction options and lease termination rights. These provisions should be determined up-front and included in your lease. There may be a penalty to exercise these options. In the long run, however, this may still be the most cost effective route for your firm to take.

Lease Termination Options: This option gives you the right to terminate a lease at some point prior to the expiration of the lease. Like the space reduction option, most cancellation options involve a one-time right -- usually six to twelve months into your initial lease period.

A general rule of thumb to consider is that the larger the space canceled, the longer the notice period. The penalty usually involves a percentage of the Landlord's up-front leasing costs.

Also consider in your lease termination options:

1. Landlord's inability to provide adequate expansion space.
2. A merger or acquisition.
3. A death or disability of firm's primary income source.
4. The dissolution of the firm.
5. The firm ceases doing business in that city.

Logistical Considerations

Demographics: Do you know what part of the state you want to be located in? Have you considered what the average attorney is making in that area or what the office space will cost you? You might want to take a look at the demographics for the area. A good place to start is the State Bar of Texas. The Research & Analysis department does a periodic study of the entire state and can often provide you with helpful information.

Practice Area Considerations: Does the space you are evaluating take into consideration the client needs in the area of law in which you practice? If you do personal injury, is your office easily accessible to your injured clients? You might consider locating on the first floor. If you practice family law, is your office in such a high traffic area that a client might feel their confidentiality is compromised? If you practice social security law, does your office location take into consideration the possible special needs of your client? Take a little time to consider the needs of your current client base, as well as the type of clients you wish to acquire as your firm grows.

Research Tool Accessibility: If you do not have your own library, you might take into consideration the location of the nearest library. Is there another attorney in the building who is willing to share their library for a small fee, or better yet...for free?

Growth!: The best scenario occurs and you grow beyond your projections. Is there space on either side of your existing space to grow into?

Other Considerations

Flexibility: How flexible is your landlord? If you underestimate your growth, will they try to accommodate you? If they are inflexible in this, your initial negotiations with them, do you really want to sign a long term lease.

Property Management: Will maintenance be easily obtainable? Is the property manager easy to deal with?

Compliance with State and Federal Laws: Confirm with your potential landlord and physically survey the property to ascertain if the building meets with all state and federal requirements. You should be especially careful about compliance with the Americans With Disabilities Act (ADA). If you fall under the purview of the ADA, you may have some duty to make sure your lease space complies with ADA requirements.

Parking: Is adequate, accessible parking provided for employees and clients?

Checking for Safety: Obtain a Police Report of the Neighborhood -- be certain there have not been excessive crimes and/or vandalism reported in and around the surrounding area. Is the parking area safe for your employees and clients? Do your employees work late at night? If so, you might want to drive by at night to see if the environment changes. If your lease space has a security system, there may be some savings on your insurance rates.

Common Mistakes

Do not overestimate the value of highly designed or finished-out space. This type of space could make it harder to sublease. More conventional and practical finished space usually sublets more quickly and at a higher dollar value. Don't let the wrapping on the package fool you!

Negotiating a cost-saving long-term lease is not as practical in the long run if your firm is unable to grow later because of lack of space availability. Be certain that you have the potential to add space if your firm continues on a growth path, as well as the ability to sublease some of the space if your firm has to downsize. It is much easier, more cost effective, and promotes good client relations, to acquire more space and/or to downsize at the same location than to have to move your business.

Conclusion

Before entering into an office lease, do your own investigation. Evaluate the area to be leased for your needs. Weigh the pros and cons of leasing to see if leasing is what is right for your particular situation. Consider your leasing needs today, but be sure to **plan for the future... happy leasing!**