# Find Office Space

The search process, selection criteria, lease negotiation, and office build-out guide

42Floors

*The office space search engine*

# INTRODUCTION

Choosing the right office is important to your success, and not just because your office expense is probably the largest line item in your monthly budget.

The right office will improve employees' mood and productive, plus help recruit great talent. The wrong office can break down lines of communication, breed frustration, and waste money.

Finding your dream office is just the start. Once you've found the right office, you still need to prepare your letter of intent, negotiate favorable lease terms, and sign the lease before another tenant swoops in. Then you'll need to coordinate the office build out and move-in.

Accordingly, this book is organized to walk you through this process from the first step (selecting offices to tour) all the way through move-in day.

You're about to start something awesome. Good luck!

-- 42Floors

# TABLE OF CONTENTS

# FIND OFFICE SPACE

## CHAPTER 1: GET STARTED

If you're like most people who are hunting for a new office space you probably began with this question:

*How much will my rent be?*

There are many factors in a lease and the monthly rent is just one component. This chapter will go over all the factors that are going to make you love or regret your office choice a few years from now.

### TIMING

The time it takes to find and move into a new office is proportional to the amount of space you need.

Startups with one to three people can move into a shared co-working space within 24 hours. Taking over a ten-person sublease can be accomplished in a few weeks. Larger spaces are generally multi-month affairs.

For example, my company, 42Floors began looking for a new office for thirty to sixty people in August. We toured fifty sites in September, and by mid-October had narrowed the choice down to three spaces we loved. Two spaces were already built out and allowed for mid-November move-in dates, while the third was in "shell" condition, which meant a January move-in date at the earliest.

As a general guideline, you should allow one month for office hunting and two months for negotiations and build out.

### COMMON MISTAKES IN NEGOTIATING A LEASE

Finding and negotiating a lease on an office space can be a lengthy and complicated process that could leave significant money on the table. Many tenants searching for secure office space consistently make mistakes that work against them.

The following are some of the most common errors that you should know about:

- Putting costs above all else;
- Leaving negotiations to the last minute;
- Not having a good idea of your company's space requirements, or moving forward without sufficient space planning;
- Hesitating once a good offer is on the table, and losing the opportunity;
- Not working with experienced advisors including a real estate attorney, a broker, a tenant representative, and an architect;
- Making decisions without clearly defined real estate and business objectives;
- Not using an in-house project leader for the search and negotiations;
- Not giving themselves a buffer at the maturation of a lease to address "make good obligations";
- Not preparing for potential expansion needs; and
- Not incorporating exit strategies into a lease, i.e. termination or contraction options.

## SURVEYING EMPLOYEES

The decision to relocate offices affects everyone in your company. You should assess the effect it will have, before making a decision.

Here are some sample questions to include in a survey, so that you can get clear insight into how relocating will affect your employees:

- What is your current daily commute in minutes?
- Approximately how much of your personal budget is used for gas?
- Do you currently use public transportation to get to work? If so, how often?
- Would the presence of nearby public transportation options make it easier for you?
- If you had to drive an additional five or 10 miles to get to work, how would this impact your decision to stay with the company?
- How would having to drive an additional 20 minutes per day impact the same decision?
- How frequently do you use restaurants and shopping centers that are located near your current workplace?
- Would moving a further distance from these locations impact your daily work life in any significant way?

- Do you think that moving into a new operational facility would positively or negatively impact employee satisfaction, morale, and overall productivity?
- Do you think that moving the location of your current workplace will benefit overall business with respect to visibility and client interaction?

Once the answers to the employee survey have been collected and analyzed, it will be easier to assess the impact relocating will have on the employees.

Depending on the answers you get, it may be necessary to seek out alternate locations that are within a five to ten mile radius of the current location. On the other hand, if the overall employee response supports moving further away, then your search can be expanded to include commercial properties in lower cost areas.

## Ranking your priorities

An office space is an important decision, because it can significantly impact your company culture and budget. Making a commitment to a lease is a serious and long-term obligation that could make or break the profitability of your company for many years to come.

You should create a list of important factors and rank them by priority. These should be determined in the beginning and used to weed out unsuitable office spaces.

You should distribute this list, plus any other issues identified by your employees to your management team to stimulate discussion:

- Adaptability for future growth
- Open office layouts vs. privacy
- Traditional offices vs. brick and timber style
- Availability of nearby potential hires
- Employee commute patterns
- Wow factor for visitors
- Immediate move-in costs
- Monthly costs
- Length of obligation and long-term expenses
- Nearby restaurants and amenities
- Move-in schedule

Discussing priorities as a group will address preferences that you never expected. For example, some people can't function without direct natural light and others want library-level noise reduction.

# Chapter 2: Consider building factors

As you start to compile a shortlist of promising office spaces, keep in mind that all buildings are not created equally.

Here are some factors that will differ from building to building:

## Efficiency

A particular property might offer a slightly lower lease rate but just make sure you are comparing your total cost of occupancy on an apples-to-apples basis. The *cheaper* space might not be the most economical deal because of space inefficiencies.

For example, let's say Space A is a 10,000 square foot space with a 20 percent load factor. That means 20 percent of the rental space is not usable for business purposes. For example, elevators, lobbies, hallways and restrooms take up your valuable office space.

Space B, on the other hand, may offer 10,000 square feet with a 12 percent load. Even if Space A's rent is cheaper, Space B may be a better deal because you could fit 42 desks in that space and only 35 desks in the office with the higher load factor.

When comparing alternatives on an absolute and a present value basis, occupancy cost projections should be analyzed in terms of usable square feet not total square feet to account for differences in common area factors and space efficiency.

## Operating expenses

The true cost of your utilities, taxes, janitorial, maintenance and other pass-through costs add up and significantly contribute to the total cost of occupancy. Your broker should know typical charges for comparable buildings and help you find out if a potential property is in line with expectations. This is an opportunity to capitalize on building efficiency improvements, such as the HVAC system or energy-saving switches, which ultimately will save you money.

## Management

Tenant surveys have discovered that the primary factor determining tenant satisfaction is the amount of contact tenants have with the property manager. Property managers are your primary points of contact with the building owner. You should speak with other building tenants to determine the manager's responsiveness and the quality of the engineering, security, and janitorial services.

Find out the frequency of the most common complaints from tenants:

- Does the HVAC (heating, ventilation, and air cooling) system work well? Building temperature is the most common tenant complaint.
- Is the janitorial staff prompt and thorough?
- Is the elevator in good working condition?
- Is parking easy to find?

## Tenant mix

The right mix of tenants can make a building the ideal place for your company. The image of the building and its tenants play a role in developing a company's brand, as well as recruiting and retaining employees.

Some tenants could possibly clash with your business. For example, if one of your competitors was in the building.

## Building systems

Infrastructure can have a significant impact on the feasibility of certain anticipated uses. You must make sure the building will accommodate your current and future needs.

For example, a tech company that needs major power and cooling to run servers internally may not be the right tenant for a building that lacks the HVAC power. As another example, a sales workforce that drives in and out of the office throughout the day may not be the right fit for a downtown building without ample parking. Some companies may need to install a back-up generator for critical 24/7 operations, in case of power outages, and a particular building may not have the capacity to provide it.

## Eco-friendliness

Many local governments have mandated green buildings. Your business may decide that this is an essential aspect of supporting your brand.

# Chapter 3: Set preliminary size criteria

The next step in selecting a suitable office is to think through size and price ranges. In an office space, walls can be built and knocked down, and rooms can be soundproofed if needed, but the outer edges of the floor plan are set in stone (concrete, actually).

It is important to balance choosing a space that works for right now versus one that is right for the future.

This is the time to ask yourself: how many employees will you have in a year, in three, and in five? Will the way you use your office change in the future? Will clients eventually start visiting your office space?

## Going small

Many business owners, especially those with relatively new businesses, like to start small when it comes to leasing office space. Not only do they want a small space for their business, but they also want a shorter-term office lease.

Smaller offices cost less. If your business closes for any reason, there would be less money at stake then there would be if you selected a more costly office space.

Newer businesses tend to have smaller staffs and less equipment. If this is the case, a smaller office space makes more sense.

The main overall benefit of this approach is that it gives you the maximum amount of flexibility. You can quickly upgrade to another office if the business grows.

The going-small approach does come with some pitfalls. Your business might grow so rapidly that it becomes cramped and productivity suffers until you source a new location. Taking out a short-term office lease can also be costly. Many landlords charge higher rents per square foot for short-term office leases. It is how they cover the time and costs of finding a new tenant every year or two.

## Going big

A larger office space will give you room to grow. If the business succeeds, it can use more of the existing office space, instead of having to search for a new one again.

A larger office space also allows you to add new equipment without crowding your staff members. It gives you the option of adding meeting rooms, more comfortable waiting areas, and other amenities that might not fit in a smaller office space.

Going big usually means more stability. You'll feel more comfortable settling and investing the energy and money to make your office perfect, since you know you're in it for the long haul.

Furthermore, the rent per square foot might actually be cheaper for a long-term lease. It is the opposite of what happens with a short-term lease: Landlords will charge lower rents per square foot because they will not have to spend time searching for a new tenant after just one year.

On the con side, renting a large office space means spending more, since there is more square footage.

Taking out a long-term lease also means losing the flexibility that comes with shorter leases. After two years of business, you might want to move to a new neighborhood that is better suited to your current needs. That can be costly if the long-term lease still has five years left.

## How to control rental costs

There are essentially two ways to control rental costs:

1. Minimizing the cost per square foot;
2. Minimizing the amount of space leased.

This seems like basic logic but many companies overload themselves with excess space.

Some companies will focus their search and negotiations on getting the best deal per square foot. You could end up getting a great deal on space that landlords need to fill quickly.

Even in a tenant's market, there is a limit to how favorable a rate a landlord can offer. By reducing unnecessary office space by 10 or 15 percent, your company can significantly reduce the total rent amount.

Focus on the ergonomics of a space and work with your team to uncover the hidden efficiency that can make a smaller space more productive.

Tenants often find that a high-quality office building ends up saving them money even if the cost per square foot is higher. This is because modern, higher quality spaces are created with ergonomic principles designed for greater space efficiency.

## Benchmarks: square footage per person

Use a benchmark of 200 rentable square feet per person to get started. That's about the size of a 14x14 bedroom.

Considering that a mid-size cubicle is only 8 x 8 or 64 square feet, 200 might sound excessive, but that includes space for hallways, walkways, conference rooms, and kitchens.

If your budget is tight, reduce it to 125 rentable square feet per person for high-density open layouts.

## Have a furniture dealer lay out the space.

It is hard to imagine how much space your staff needs to work, eat, and meet comfortably when using abstract concepts like 125 square feet per person.

Fortunately there is an easy and free solution. Most potential landlords will give you an empty architectural floor plan if requested. This floor plan can be taken to an office equipment dealer, who will lay out an office plan for free in the hope of earning your future business.

That office floor plan can then be virtually manipulated to move desks and walls around to determine the best plan for the office space using an image editor like Photoshop.

## Planning for rapid growth

New companies that are growing quickly are often bursting with enthusiasm and confidence. That enthusiasm should be tempered with cash burn control. Seed-stage and Series A startups should only lease enough space to allow for a conservative eighteen to twenty four month plan.

If the intention is to scale quickly, you should look for short-term leases and subleases. If that is not realistic in the market, find an office within a large skyscraper or office park where there is the potential for an easy move or adjacent expansion. Landlords are usually happy to include a lease provision that will allow you to move into a larger space within the same property on the same terms as the original lease.

As a last resort, you can sign a long-term lease with the expectation of moving out and subletting the space for several years once you have outgrown it.

### TYPICAL OFFICE COSTS

| Company size | Strategies | Size | New York / San Francisco |
|---|---|---|---|
| 5 people | Shared office space | 750 sqft | $1,500/person<br>$7,500/month |
| 20 | Short term sublease or live-work | 3,000 sqft | $600/person<br>$12,000/month |
| 100 | Long-term direct lease | 15,000 sqft | $550/person<br>$55,000/month |

# CHAPTER 4: LEARN BROKER-SPEAK

## FULL SERVICE VS. NNN VS. GROSS LEASE

There are three major flavors of commercial real estate leases and a basic understanding of these broad types will help you compare different options.

### FULL SERVICE LEASE

The Full Service lease is the most simple and straightforward from the tenant's perspective. The quoted lease rate generally includes everything up to and including janitorial service and utilities (excluding phone and data). This form of lease is most common in multi-tenant buildings catering to smaller tenants.

### NET LEASE

The Net Lease, also referred to as the Triple Net lease (often abbreviated 'NNN Lease') is the standard for freestanding buildings and corporate campuses. It also has become increasingly prevalent in multi-tenant buildings.

The stated rent in a Net lease does not include the expenses incurred in operating the building. "Triple" Net is a reference to the three broad categories of operating expenses:

- Property taxes
- Building insurance
- Utilities

Maintenance and management expense are generally rolled into these categories.

These "net expenses" will vary building by building, but may add anywhere from $10-20 per square foot in annual cost. In some markets these expenses could represent as much as half of the total occupancy cost. It is common for a landlord to bill their tenants monthly for their share of these expenses (the landlords best estimate at least), with reconciliation at year-end.

### GROSS LEASE

A Gross lease is the opposite of a NNN lease in that the landlord is responsible for property taxes, insurance and maintenance. In that respect, it is similar to a full service lease. Gross leases are usually found in industrial buildings.

### SUMMARY

A Full Service lease is essentially all-inclusive (or at least mostly inclusive), while the rent in a Net lease will not include some significant additional expenses.

One very significant concern in the Full Service lease is that the landlord usually has the right to pass along any future increases in their operating expenses. For example, if your landlord's property insurance goes up or utility rates jump, you can anticipate receiving a rent increase.

You should expect the open market to adjust for these different lease types. Similar spaces in comparable buildings *should* end up with a very similar total occupancy cost regardless of how it is calculated.

## BUILDING CLASS

Tenants are often looking for a "Class A" building, or even a "Class B" building that balances quality with a more cost-efficient price point. The difficulty with these distinctions is that they are often based on opinion and not defined by strict parameters.

### CLASS A BUILDINGS

Class A buildings will have a sought-after, central location, and a size that is significant in comparison to its location and market. For example, in a smaller town, a 50,000 square foot building downtown can be an impressive size, and qualify for Class A distinction, while 250,000 square feet could be the minimum Class A size in larger markets.

Additional factors that include a building as "Class A" include:

- On-site parking;
- The latest in elevator and HVAC technology;
- Steel frame construction; and
- Modern design, both in terms of interior choices and the overall architectural design of the building

### CLASS B BUILDINGS

Class B buildings are typically older buildings, with units that have all been occupied at least once by an earlier tenant. They can also include new buildings that are located in non-prime areas of a market. Class B buildings offer:

- Solid tenant improvements & maintenance;
- Possible on-site parking options;
- Elevator and HVAC service, but not industry-leading; and
- Various construction materials & methods.

### CLASS C BUILDINGS

Class C buildings do not have elevators, AC systems, or on-site parking. The tenant improvements in these spaces are often low quality, and there is also a lower quality of maintenance services provided by the building. Class C buildings are always older and have been occupied by other tenants.

### SUBURBAN MARKETS

These guidelines may not matter in the suburban market, where the size of a building is usually smaller than in urban environments. Parking may also be in exterior lots instead of covered structures. For this reason, even though suburban properties may offer many of the other amenities associated with a Class A structure, they are typically regarded as Class B or Class C.

## USABLE SQUARE FOOTAGE VERSUS COMMON AREAS

The usable square footage of an office space is essentially the space a company occupies. In most cases, this space is determined as if any recesses or structural elements, such as columns, are not there. With large-scale tenants who occupy entire floors or several floors, rental rates include all the restrooms, maintenance closets, and rooms on the floor within the usable space.

### COMMON AREAS

Both small and large-scale tenants pay for some portion of the shared areas within a building. These can include large central areas such as a lobby or restrooms and elevator areas. Common areas can be divided into two categories:

- Floor Common Area: common areas on a specific floor. Your share will typically average out to eight percent of the floor.
- Building Common Area: common areas in the overall building space. Your share of this can range from six to eight percent.

It is important to know that landlords often include the floor common area and the building common area as the "common area" factor in their equations. Your share of "common areas" can range as high as twenty percent.

### RENTABLE SQUARE FOOTAGE

The rentable square footage times the lease rate per square foot is what you will pay on the lease. Rentable square footage is the usable square footage times the floor common factor times the building common factor (except in the case of a full floor/multi-floor tenant).

In other words:

*rsf = usf x (1 + Add-on %)*

As an example, consider a tenant looking for 10,000 square feet of office space. The add-on factor (both the floor and common) is 15% for that building. The rentable square footage would be:

*10,000 x (1 + .15) = 11,500 rsf*

Some landlords may use a different factor than an Add-On, such as a common area factor. Always confirm whatever factors and calculations the landlord is using to determine the RSF. It is very important to do this before signing a lease. Although leases do not necessarily detail the calculation method used, many landlords may agree to language in the lease that states that the measurement of a leased office can be verified by a professional, in line with some acceptable industry standard like the BOMA standard. Make sure your broker confirms that the common area factor the landlord uses is based on relevant and realistic dimensions.

# CHAPTER 5: GO ON A FEW OFFICE TOURS

The goal in this step is to consider a wide variety of spaces and then steadily narrow them down until there is a manageable list of candidates.

## FIND OUT WHAT IS AVAILABLE OUT THERE

Use [42Floors.com](42Floors.com) to find out what spaces are on the market.

It is important not to be too picky in the beginning. First-time office hunters often start with requirements that are too specific. For example, they specify that they are looking for a 1,500 square foot, one-year sublease in San Francisco with hardwood floors, exposed brick walls, and twelve foot ceilings for $5,000 a month within walking distance of the train. They get discouraged when their search turns up zero matches.

After investing significant time with zero results, they loosen their criteria and start making progress. You should start with broad criteria and then narrow it down.

## GO ON A FEW TOURS

As soon as you've found a space that looks promising, schedule a tour.

This first tour doesn't need to be a "shortlist" space. The purpose of your first few tours is to determine what a certain price point will get in your market in terms of size, amenities, and location.

These first few tours will also help prepare you for when you find a space that you're serious about leasing. You'll already know the kinds of questions you should be asking and will be more comfortable talking with landlords.

While you're on the tour, take tons of pictures and email them to yourself with notes about things you did and did not like about the space. After a few tours the spaces will start to blur together, but the photos and notes will help jog your memory about specific locations.

## HOW BROKERS GET PAID

As you search for office space, you'll meet two types of brokers: the tenant rep and the listing agent.

The listing agent represents the landlord. Their job is to negotiate the best deal or highest monthly rent for the building owners.

You'll be working with a tenant rep. These agents work with clients who are want to lease or buy office space. Their jobs are the opposite of listing agents; they want to get the best deal for their clients. A good tenant rep will negotiate lower monthly rents and more favorable terms for their clients.

Whether or not you choose to retain a broker or "tenant representative", there will always be a listing agent and a tenant rep who get paid in any commercial real estate lease.

So who pays for these two brokers? The landlord actually pays both of their fees directly. Technically your tenant rep is free to you, although your landlord has included the fees he has to pay the brokers into your rent.

Since you're not paying the tenant rep, negotiating over how much the landlord pays them is not possible. Even if you choose to self-represent in a lease, the listing agent will just assign the tenant rep commission to someone he knows at another brokerage. Since it's already paid for, you should always choose a tenant rep to represent you.

The relationship between homebuyers and their real estate agents works pretty much the same way as the relationship between you and your tenant rep. Residential real estate agents don't get paid until their buyer clients find a house and sign the closing papers. When this happens, it's the seller of the home who pays the agent's commission through the proceeds of the home sale.

It works the same in an office lease. Your broker won't get paid until you sign a lease and the owner of the building will be the one issuing a check to your broker.

When you sign a lease, the listing agent will receive a commission of 4 percent to 6 percent of the lease's value. The listing agent will then split that commission with your tenant rep. This split is usually 50/50.

If you sign a five-year lease for 2,000 square feet at $30 a square foot per year, a commission of 5 percent would equal $15,000. If the listing agent agreed to a commission split of 50 percent with the tenant rep, your tenant rep would receive $7,500.

The pay structure makes working with a tenant rep an easy decision. Since you don't pay the tenant rep's fees, there is no reason why you shouldn't take advantage of a commercial broker's market knowledge and experience.

A skilled tenant rep will also tell you if monthly rents are too high for a particular building or neighborhood. A tenant rep can also help you negotiate a lower rate. They might even be able to convince a building owner to make improvements to an office before you move in.

Depending on the type of office space you are seeking, you might have to perform your office search on your own. Tenant reps may not be willing to work with you, if you are seeking a particularly small office space (less than 1,000 sqft) or if you are searching for a lease with a short lifespan.

Tenant reps won't receive a sizable enough commission to make it worth their time, since they receive less commission for smaller short-term leases.

If you are looking to sign a big enough office lease to attract the attention of tenant reps, make sure to conduct some initial research. Interview several commercial brokers and ask for references before you sign an agreement with any tenant rep. You want to make sure you find the right rep for you and your business.

# CHAPTER 6: GET THE MOST OF OUT EACH OFFICE TOUR

During the initial evaluation process of physically inspecting and touring potential spaces, there are several guidelines you should follow to make sure you get the most out of the process and don't compromise your negotiating position.

## BE PREPARED

Prepare your questions and concerns about the office space and research everything you can before physically touring the building. You should be clear on exactly which issues and factors in a space are priorities and which are negotiable. This will make it easier to ask specific questions aimed at clarifying whether this space is really appropriate for your business.

## BE NEUTRAL

Remaining neutral is extremely important. Enthusiasm and excitement for the office space can ruin any advantage you have during negotiations. Excitement indicates to the landlord that this office space is definitely desirable and that desirability could raise the price.

It is a good idea to only bring a small team on office spaces tours and to keep discussions that may reveal too much to the landlord to a minimum. Asking questions regarding the space and its suitability for the company's requirements is encouraged, but save the discussion about whether or not it is an ideal space for your business until after you have left the building.

You should make it clear to the landlord or leasing agent that various buildings and office spaces are actually under consideration. A good strategy is not to go into any detail about the company's search or about specific impressions of the building.

You should also take along your tenant rep. That way if the leasing agent starts to ask questions you don't want or know how to answer, you can just direct him to your tenant rep.

## GO SLOW

The more focused your team is during the touring process, the more will be gained from the whole process. Staying focused can become impossible if too many tours are scheduled for the same day so keep tours down to a maximum of four per day.

## Ask about the tenant mix

The importance of the tenant mix has already been covered, but this factor needs to be taken into account during office space tours. A building directory will help determine which other tenants have offices in the building. You should note whether there are any undesirable (for whatever reason) tenants in the building, as well as tenants who may be advantageous to your business. You should also take note of any similar tenants that can approach to get an objective opinion on the building and its management.

## Visit again during rush hours

If you get serious about a specific building, it's a really good idea to visit it again during the morning and afternoon rush hours. This will let you evaluate what vehicle and foot traffic, building security, and staff when things are busy. This is also a good time to check how clean common areas like restrooms, hallways, and lobbies are maintained.

## Check parking

Parking is one of the most frequently overlooked factors in choosing a commercial real estate space. Oddly enough, it is also one of the most crucial if your employees drive to work.

Limited parking can have a negative impact on your business's productivity and morale, if your employees are wasting a lot of their time searching for parking spaces. Parking space shortages can also chase customers away and make guests reluctant to visit you.

So, if parking is important, make it a part of your rush-hour checklist.

## Evaluate security

Break-ins and physical assault in an office space may be rare, but when it happens it's catastrophic. You can reduce the odds by checking for these common commercial building security features:

- A card-key entry system on all exterior doors;
- Windows with shatterproof glass and secure, working locking mechanisms;
- Burglar and motion alarms that are in good working order for use after-hours, plus a central security desk that can communicate via telephone or walkie-talkie with other safety and security personnel such as the police and security guards;
- Security cameras at each entry to the building, plus several on the perimeter of the property, along with equipment to record security camera activity, and monitors for live viewing of activity;
- Exterior security mechanisms, such as fencing around the building perimeter and parking area, plus metal doors with spring locks or deadbolts, padlocks for entry gates on fences, and adequate exterior security lighting around the building and parking lot;
- Entry and exit doors with panels or peepholes to view visitors prior to granting entry;
- Safety features such as elevators with emergency alarms and telephone in good working order, easily accessible emergency exits and procedures, and operational fire alarm, sprinkler and smoke detector systems; and finally
- Visible signs marking the property as private, with no trespassing allowed, along with No Parking signs in building parking entrances, prohibiting the use by unauthorized people of the parking lot.

Finally, check local crime statistics online or via the local police department. This information can heavily influence your company's decision to enter negotiations for an office space, or to leave it and look elsewhere. Most estate agents and brokers will not supply this information unless requested.

# CHAPTER 7: NARROW DOWN YOUR OPTIONS

By this point you should have been on a lot of tours and started narrowing down your list. For a 1,000 sqft 1-year lease, "a lot" might be 3-5 tours. If you're planning to sign 3, 5, or even 7-year lease, looking at 50 offices before you make a decision isn't unreasonable.

Even if you're the final decision maker, don't feel like you need to be the one to go on every tour. Have somebody on your team who understands your priorities take pictures and notes instead. They can help you weed out the list, so you can focus your time on going to the spaces that fit the best.

## GET A SPACE PLAN RENDERING

I recommended back in the earlier chapter that you have a furniture dealer take a sample floor plan and lay it out so that you can visualize where people will sit.

Now it's time to repeat this step. Assuming you've narrowed down your list of spaces to 1-3 options, ask the landlord if he'll have his architect work with you to sketch out a potential layout. He may be willing to foot the bill for this before or after you've signed a letter of intent.

Even if the landlord isn't willing to invest in a space rendering at this stage, you can still go back to a furniture dealer and ask them to help you come up with a layout.

If you're a decent hand with Photoshop, take their layouts and move desks and walls around to see what works. Explore a wide variety of layouts instead of just moving a desk around here and there.

## DOUBLE-CHECK

A quality tenant representative will provide you with a thorough breakdown of each property but there are a few things that you should address on your own if you haven't already.

- Visit the building during morning and afternoon rush hours to see how these high-volume times of day affect a commute and access to the building.
- Use the elevators during peak times in the morning and afternoon to see how it affects your travel time to your floor.

- Look at the common areas and assess them for cleanliness and high-quality maintenance.
- Make sure you visit the property management office for a face-to-face with the on-site team.
- Use your cell phone from various points within the building to assess the quality of the signal.
- Visit the actual parking facility you will be using under the terms of your lease.
- Review the list of tenants to make sure that no undesirable tenants or direct competitors are in the building.
- Ask existing tenants for their impressions on the building and its amenities.
- Eat at any food service facilities in the building.

## Get a property inspection

Although a third party professional should do an in-depth inspection on your behalf prior to signing the lease, there are some things that you can do first to help weed out some of the less desirable properties.

Do a walk-through of the grounds surrounding the property. This includes the parking lot itself and any landscaped areas. We've already talked about parking but ensure that all parking spaces are well marked and inspect the condition of the parking lot itself. Excessive pot holes, cracks in the cement, or an uneven layout can result in and can leave potential clients with a negative impression of your business. Check landscaped areas for signs of operational sprinklers and properly-situated irrigation that will prevent flooding in case of heavy rain.

Walk the perimeter of the building and check the structure itself. You may not have the equipment or the expertise to identify any complex structural or foundational issues, but you should be able to identify any obvious issues. Look for signs of unnatural wear on the exterior of the building itself. Check any exposed sections of the building's foundation for cracks. Make note of any broken, frayed, or otherwise damaged electrical cables leading outward from the inside of the building.

Ensure that emergency exits are not blocked from the outside and confirm that all entries into the building are easily accessible to wheelchairs.

Perform an extensive walk-through of the entire inside of the building. If it is possible to access the basement of the facility, inspect it for any visible cracks in the foundation. Look at every single window and door and make note of any damage seen. Pay attention to static light fixtures, spots in the ceiling that could indicate past leaks, and carpet damage that could have come from the same cause. Since it is not likely you will be able to inspect the plumbing itself, some problems can be detected by the testing of all faucets and toilets for leaks or low pressure.

If any serious issues are encountered during the property walk-through, inform the current property owners before deciding to move onto the next property. Minor issues that need repairing can sometimes work to your advantage by providing leverage in price negotiations.

Once you get down to the lease signing stage, you can have a certified commercial property inspector inspect the building. This will ensure that you do not end up signing a five-year lease, only to discover major electrical or plumbing problems six months down the line, that should have been identified in the initial property inspection.

# CHAPTER 8: PUT IN AN OFFER

You've now identified the specific office space you want, brought up issues, and gone through your walkthrough checklist – it's time to put in an offer.

Every great negotiator will say that the key to success is to really "know" whom you're negotiating with. What motivates them? Is it fear or greed or ego? You can fine-tune your negotiation strategy if you understand the landlord's financing structure, partners, and what means success and failure for him.

The basic economic elements to a lease are rent, term, construction allowance, square footage, and credit/security deposit. All of these variables are related. Think about what is important to your business and its investors. Give the landlord some "wins" on issues that are less important to you, and focus on the issues that are so important to your company that you would be willing to walk away from the deal.

Many executives are insulted when a landlord questions their business viability and asks for an enormous security deposit or proposes what seems to be an outrageous rent. Never get emotional; it is not personal. Just refer back to your "walk away" issues and use your broker to understand what you should expect from the market.

## SUBMIT THE LETTER OF INTENT

Offers on the office are submitted using what is known as a Letter of Intent or "LOI". The Letter of Intent is a non-binding agreement between you and the landlord that gives an overview of relevant terms and conditions that have been mutually agreed upon.

This document is the foundation for the lease that will be negotiated later in the process. It is important to know that, while the overall terms are not binding, some of them may be and you need to be careful when drafting this Letter of Intent. Some items detailed in the letter cannot be changed or revoked; therefore it is essential to ensure you agree with all of the terms and conditions.

There are three principal aims of a Letter of Intent:

1. To set forth the agreement on the major economic terms;
2. To get the office space off the market; and
3. To develop momentum.

Many business owners are eager to get to the stage of submitting a Letter of Intent because it feels like progress. In fast-moving market conditions, it is sometimes necessary for you to rush in with the Letter of Intent, but it is usually best to first discuss as many deal points as possible, for two primary reasons.

The first reason is that negotiating as many points as possible prior to the Letter of Intent gives you an advantage. The Letter of Intent signals that you are committed to the particular office space, which gives the landlord added leverage because he or she knows that you really want that office space.

The second reason for working out as many points as possible is that it gives you the opportunity to thoroughly plan the rest of the lease transaction, from the finalizing of the lease, to any construction required, to all the issues regarding the move in.

The kinds of factors included in the Letter of Intent are the lease term, the starting date of the lease, the agreed upon rental rate and whatever lease concessions have been agreed to, such as tenant improvements, options for the expansion and/or renewal of the lease, and any rental abatements.

The Letter of Intent can also include more nuanced items like assignment or sub-leasing provisions, the condition of the office space on surrender to the tenant by the landlord, the strategy for dealing with operating expenses, ability and permission to make alterations, the procedures agreed on for determining fair market rent upon renewal of the lease, penalties agreed to should the landlord not deliver the space in the condition and time agreed to.

# CHAPTER 9: NEGOTIATE EFFECTIVELY

## USE A FORMULA

When approaching the negotiating table, the typical tenant who is doing this for the first time is generally focused on obtaining the lowest possible monthly rent figure. This happens to be the most common mistake tenants make when they do not have a broker representing them.

The proper way to analyze a deal is to look at its total value. This is the way landlords assess deals, and is therefore what your business should do as well. The most basic way of doing this is to take the annual rent (which increases each year by fixed escalations and taxes) and multiply it by the lease term, minus the free rent, and minus tenant improvement allowance that the landlord will give to improve the space.

> *Annual cost = annual rent + annual increases + taxes*
>
> *Adjusted total cost = annual cost * lease length*
>
> *Real total cost = adjusted total cost - free rent - tenant improvement allowance*

Each of the factors that make up the overall deal effect each other, which is the key to getting for the company the best deal. Forget about the monthly rent and have a brainstorming session with your team about how to get the lowest *real* cost.

## GET CREATIVE

If your company is growing and needs as much cash as possible for the first few years, but you expect revenues to multiply exponentially, a creative way to negotiate a lease is to propose a very cheap rent for the start of the term. You can then backload it so that the landlord can recoup some of that rent towards the end of the term.

If esthetics is the driving factor and your company wants the nicest space on the block, the creative way to negotiate could be to think about paying another $1 per square foot in the rent, and then to get the landlord to give the value of that up front, so there is no need to pay out-of-pocket for any high-end build out.

If your company has just been funded and has cash in the bank, the landlord can give more free rent by spreading it over the lease term. It is always a good thing to be three years into a lease and have a few months' free rent still coming up.

Pick an approach that's specific to your company's needs. The landlord always knows what the total real value of the deal is and you should, too.

## GET AS LOW AS POSSIBLE

During negotiations it is good to know up front how far to push on an initial proposal without the landlord being turned off. You should also decide in advance the right point to stop negotiating and take the deal on the table.

Unlike residential real estate, commercial leases are not very transparent. It's possible to estimate within $100 or so, what a friend's apartment rents for, but office space is different.

To resolve this problem, brokers can usually ask for a list of recent deals in or around a building in which your company is interested in. These are called "comps". This information is a good starting point. The more knowledge gain about recent, similar deals, the better equipped you will be to recognize a good deal and persuade a landlord to lower the rent.

Never forget the power of being charming and personable. Landlords are people too, and getting along with them is a good start to the negotiation process.

## BRING IN THE COMPETITION

One of the ways of getting the deal as good as possible is to create a sense of competition for the landlord. The landlord's team needs to understand that you're considering several office spaces. It's never a good idea to give the impression that your company is totally committed to only what the landlord has to offer.

## PUT TIME ON YOUR SIDE

Rushing things through is not good for your company logistically or financially, and it can harm your leverage during negotiations. Do not give the landlord's team the impression that the company is pressed for time and needing a space immediately. If the landlord's team has committed a lot of man hours to hammering out a deal, they will be more likely to want to see it through even if it means making some concessions.

# Chapter 10: Negotiate the details

The lease between you and the landlord is legally binding and you need a good lawyer who's experienced in commercial real estate transactions. This checklist should help you identify the issues you need to hammer out.

## Tenant improvement allowance

Most offices need adjustments to walls, carpets, doors, etc. before being move-in ready. That's where the tenant improvement allowance comes in. The allowance is the budget the landlord spends on retrofitting the office.

Negotiating your improvement allowance in a lease can be one of the most central and high-stakes elements of lease negotiations. Your two goals are:

1. Getting as large of an allowance as possible;
2. Maintaining control of the build-out process.

There are two main types of tenant improvement allowances:

### Stated Dollar Amount

A stated dollar amount allowance is based on a specific, predetermined amount, which often includes architect, engineer, and build costs.

### Turnkey Build-outs

A turnkey build-out involves the landlord covering all the costs of a build-out based on an agreed-to rent rate and approved design plan.

Turnkey build-outs might seem less risky for you but they're not perfect. First, the landlord may build significant contingency costs into a turnkey build–out, and then attempt to reap a profit from this by cutting corners in the build. Second, you may lose a good deal of input and control on the process. It is important to negotiate an extensive work letter that details a thorough breakdown of the construction plan.

## Control of the construction process

In general, controlling the construction process is much easier when there is a stated dollar amount allowance. You can also negotiate a couple of points to keep more control:

1. Get the landlord to waive a management fee for the project;
2. Choose to install your own project manager to oversee the process.

While minor renovations like installing new carpet and painting the walls does not require a project manager, any build-out that involves significant construction to the interior will benefit from a project manager. It is also a good idea to negotiate the amortization of any additional tenant improvements into the rental rate if more improvements or upgrades will eventually be needed.

## Guaranty

The landlord may ask for a personal guarantee from you as an individual. You should proceed very cautiously because if your business fails for any reason, you will be personally liable and could wind up in personal bankruptcy if you cannot afford to pay off the balance of the lease.

If any guaranty is included, detail exactly what the obligations are that are being guaranteed by the guarantor, and what is the term of the guaranty. If the lease is to be assigned, in the agreement a provision needs to be made that any guarantor must be released from their guaranty obligations. This is especially true during any option periods to be exercised after the assignment date becomes effective. Make provision during negotiations that the guarantor will not be held liable for terms amended without the guarantor's approval that increase your obligations under the lease. This is the case except where the terms amended have been made with the approval of the guarantor.

## Security deposit

If the landlord asks for a security deposit that will be held until the end of the lease, you can counter by asking for a shorter holding period or a draw-down structure. For example, in a five year lease you could ask that the security deposit be returned after two and a half years. Alternatively, you could ask that security deposit be used to fund a portion of your rent each month so that it draws down to zero by the end of your lease.

## Use

Use governs the acceptable activities that you can use your office for. You need to know that your use of the office space is not too restrictive, especially in the case of retail leases. It will be important to negotiate that the tenant has an exclusive use provision, and that there is specific provision made to remedy the situation, if the landlord should default, as in the case of an abatement of rent.

In the lease it should be stated that the landlord (a) will represent that the tenant's use of the office space is not in violation of any existing restrictive covenants or other exclusive use provisions, or (b) will provide to the tenant a list of already existing uses, together with the certification that such a list is both complete and without error.

## Premises

The lease needs to (a) accurately describe the premises to be leased, (b) ensure that the tenant has the right to measure again the premises, and (c) to record the standard of measurement to be used.

## Term

The commencement of the lease term must be specifically noted and confirmed. At the very least, the term should not be commenced until the landlord is able to deliver the premises in the specific condition required by your business.

### Basing term length on size requirements

One of the easiest ways to select a length term is to factor in the amount of space your company needs. Corporate headquarters that require hundreds of thousands of square feet will naturally correlate to a longer-term commitment. After all, your company does not want to relocate thousands of workers and reallocate hundreds of thousands of square feet every few years. Barring a contingency in which a space is tied to a short-term contract, larger space demands should typically match up with long-term leases.

### Basing term length on economic climate

When economic conditions are bullish, the cost of real estate is usually on the higher end of its own cycle. Entering into a long-term lease during good economic conditions can result in being locked into a very high lease rate over several years. In slow market conditions, the reverse is true. Companies signing short-term leases may miss out on great long-term rates.

### Basing term length on company growth

A start-up with only venture capital to keep it afloat might not want to enter into a long-term lease. A well-established law firm, on the other hand, with multiple decades of repeat performance and a stable business plan for several years into the future, does not need to be as hesitant to enter into a long-term commitment.

#### BASING TERM LENGTH ON SPACE CUSTOMIZATION NEEDS

If your company has highly specialized space requirements that may require costly leasehold improvements, entering into a short-term lease does not make much financial sense. Every three or five years a new space will need new build-outs, significantly driving up overhead costs. In these types of scenarios, the wiser decision is typically to enter into a long-term situation, and then to amortize improvement costs over the span of several years.

### Rent commencement date

The rent start date should allow for the possibility that you may be delayed in completing build-out improvements. It should provide that the rent commencement date will be delayed if that happens.

### Rent

Recalculate the rent, just to ensure that it is accurate once committed in writing. In order to avoid any inconsistencies and misunderstandings, state the rent and rent escalations only once.

### Common area

State exactly what the parking rights of the tenant are in regards to the common areas of the property. Furthermore, state whether the landlord has the right to issue rules and regulations regarding the common property, to which your company would be subject. State that the rules cannot override the terms and conditions of the lease agreement.

Earlier in this book there was a section about the common areas and how they affect the rent charges. In negotiating the lease, these points need to be hammered out and nailed down. Be aware that the landlord may use a different term, namely, “Operating Costs”, rather than “Common Area Charges”. Ensure that these terms are properly defined and that all charges included under the term are fully understood.

Some finer points under the heading of "common area charges" also need to be negotiated, namely:

- Allowing for audit rights;
- Capping increases in common area charges;
- Prohibiting charges being billed to the tenant if such charges were incurred more than one year prior to the actual billing;
- Ensuring that management and administrative fees are fair and reasonable;
- Ensuring that capital expenditures are excluded. Where it is not possible to exclude them, ensure that such expenditures are amortized over a reasonable period of time;
- Ensuring the calculation of the pro rata share charged to the tenant needs to be fair and reasonable. In calculating such costs, the denominator should not be limited to what are termed "leased" or "occupied" areas because you should not have to pay more simply because the landlord has not leased a space;
- Ensuring that provision is made for gross up regarding office leases that have a base year;
- In short-term leases, excluding yourself from having to make and fund any major repairs to the office space.

## Landlord obligations

The landlord must be responsible for maintaining all exterior portions of the building, as well as common utility lines and the common areas at all times. It is also wise to include a provision allowing your company to perform a landlord's maintenance obligations in the event that your landlord does not do what is required within a reasonable amount of time.

See if the landlord will agree to making any alterations to the office space that are required by law, including ADA provisions. Such alterations would be limited by two factors: when the alterations needed are caused by your own alterations and when the alterations are specially required for the use of your business.

The lease also needs to specifically and clearly include general obligations for which the landlord is responsible, such as HVAC service, the after-hours HVAC service, and janitorial services.

## Assignment and subletting

Sometimes companies need to leave a space before the maturation of the lease term. Various factors such as market fluctuations or force majeure events can force your business to vacate a space early. To prepare for this contingency, build assignment or sub-lease language into the lease that gives you the option of an early departure.

At a minimum, your lease should state that if the landlord has the right to deny a sublease that decision must be "fair and reasonable."

### Assignment versus Subletting

Assignment and sub-leasing are actually two very distinct practices. With assignment, the original tenant's rights and obligations under the original lease are transferred or assigned to the new tenant. With subletting, the responsibility for the lease remains with the original tenant. Landlords often prefer and feel safer with a subletting situation, since two tenants become liable for the property.

Assignments are usually seen as high risk for landlords, since they may be concerned that the new tenant does not fulfill certain requirements such as financial stability, creditworthiness, etc. With a sublet the burden is still on you, but with an assignment, a new tenant must be proven as financially reliable financially as your company for most landlords to approve an assignment.

When it comes to executing sublets or assignments, your company and the landlord must consider several factors:

- the solvency and character of the parties involved;
- whether the terms are changing;
- the obligation of the original tenant;
- whether sub-lease rental fees will exceed the scheduled rent; and
- whether any costs to the landlord with be paid by the tenant.

Landlords may also request:

- approval of the proposed use of the office space; and
- tenant payment of legal and financial analysis fees incurred by the landlord during the review period.

Keep in mind that landlords are typically more amenable to a transfer or sublet when the new tenant is somehow affiliated with a business. Bringing in a familiar and responsible party is much more likely to result in an approved assignment or sub-lease and can provide the flexibility needed to make changes when necessary.

### Termination and contraction options

Negotiating lease termination or contraction options into a lease can give your company the flexibility it needs to deal with fluctuations in the market and in the business itself. Costs associated with these options can include penalty rent payments and the required payback of cost items, such as tenant improvement allowances.

These "insurance" options can save an enormous amount of money if a sudden or drastic relocation is required. Use these termination benchmarks to reevaluate your company's space needs and determine whether exercising an "escape" clause is necessary.

These options are hard to negotiate and many landlords will not allow them. Getting a termination or contraction option included into a lease will depend on current economic and market conditions.

### Expansion options

Sometimes companies discover they need more space. Instead of negotiating a new lease for a new space, companies can build a series of expansion options into an existing lease.

A hold option gives you the right to take over another space in the building at some point during the lease.

A right of first offer will give you a "first look" at any space that opens up in the building.

A right of refusal requires that a landlord give you the opportunity to rent a particular space in the building before offering it to a third party.

### Alternate work structures

There are also several ergonomic techniques and design solutions that can help your business use a space more flexibly. You can use common areas, rotate workspaces, and try hoteling, which allows employees to work at generic workstations when needed. These flexible approaches may require that a building allow employees to enter at odd hours and that the building keeps essential services on at odd times. You should ask a building landlord whether these adjustments can be made to accommodate these alternative practices and then include it in the lease.

## Renewal option

A renewal option in a lease is an enormous asset to a tenant. These clauses allow you to extend a lease after the initial term has matured and give you a much easier way to renegotiate when the time comes.

Renewal options are a necessary evil to many landlords. While they may wish to avoid them and retain the ability to market a space to a newer, higher-paying tenant, they often understand that they are needed at times to seal a deal. A renewal clause works against the landlord because:

- He might find a tenant willing to pay a higher rate;
- A high-priority, large tenant in the building may already want the space occupied by your company.

If the lease contains a well-structured renewal option, it puts a ceiling on the costs of renewing the lease for the office space.

### Notice period

The notice period of a renewal lease defines how far ahead of time it is necessary for you to inform the landlord that negotiation for a renewal is wanted. These periods typically run at anywhere from six to twelve months. Try to negotiate a longer period so that there is plenty of time to review other options and so that the landlord is aware that there is a healthy amount of competition in the mix. This can give your company an advantage in the negotiation process.

### Term

Negotiating the renewal clause will also involve specifying the length of the term of the renewal period. Try to introduce different term lengths, such as three or five years, into a renewal clause to give more options.

### Rental rate

The new rental rate for a renewal period can sometimes work on a predetermined basis, as mentioned above. However, it is more likely that a renewal clause will state that a fair market value must be used to determine a new rate.

### Fair market value

This fair market value (FMV) itself must be carefully discussed and defined. The main goal here should be not to leave the FMV up to the landlord's interpretation. Make sure that the FMV includes items such as the tenant improvement allowances or concessions possibly found from the landlord's competition. It is also a good idea to make sure that third-party arbitration is included if there is no agreement between you and the landlord in regards to an FMV.

# CHAPTER 11: EXPOSE HIDDEN COSTS

You've reached the point where the perfect office space has been found. It sits in the ideal neighborhood for your business, one with easy access to major roadways and a large amount of foot traffic. The space is large enough to accommodate your company's planned future growth, but not so large that you are paying for unnecessary space. In addition, the landlord has quoted an affordable monthly rent that fits your budget. It all sounds ideal.

Just be careful, because that monthly rent might not be as low as it seems. Too many tenants make the mistake of overlooking the hidden costs that can come with a new office lease. Those costs can quickly surpass your intended budget.

Here are some of the most common hidden costs that business owners overlook when signing an office lease. Be on the lookout for them to make sure that your business is not put in a bad financial situation.

## MAINTENANCE COSTS

Someone has to plow the building's parking lots during the winter, cut the grass in the summer, and repave cracking driveways. Someone also has to pay for these services.

Who pays and how much should be included in the office lease. Some leases might state that the building owner is responsible for covering these maintenance costs while others will spell out a payment structure shared by the building's owner and its tenants. If you forget to include the monthly maintenance fees that come with the new office, you can blow your business's monthly budget.

## UPGRADES

What if the office building needs a new sprinkler system or if the bathrooms need an overhaul to meet the requirements of the Americans with Disabilities Act?

Someone will also need to pay for these upgrades. Depending on the agreed upon lease, it may be that your company is responsible, at least partially. It is important to understand this before signing the lease. Building upgrades are rarely cheap and a significant burden can be placed on the monthly expenses.

## Electricity survey

Some office leases contain clauses giving building owners the right to conduct an electrical survey of your office. During such a survey, contractors will chart how much electricity your company actually uses. The landlord can then factor this usage into the amount your business is required to pay each month for electricity.

Be forewarned that some electrical surveying firms will figure the total amount of electricity that the company's office would consume each month if every piece of equipment – all the computers, lights, copy machines and other items – were running at full capacity. This will result in a higher monthly electrical usage and could unnecessarily boost monthly utility bills.

## Pre-existing conditions

If your business is growing, it might not expect to stay in the new office space for very long. In this case, it is important to be careful of pre-existing condition clauses. These clauses state that an office space must be returned to its original condition after being vacated.

It may be necessary to remove any new walls that were installed or any new lighting, or that the now bright red office walls will need to be returned to their former dull beige.

All of this costs money and can significantly add to your business's expenses when it is time to move to a new office.

## Operating expense increases

Most office leases will include clauses giving landlords the right to increase the monthly rent by a certain percentage each year. In theory, the landlord might have to pay more each year to maintain the building, as the costs of labor, equipment, and materials rise. The annual rent increases help landlords cover this expense.

Make sure that the lease signed does not allow the landlord the ability to raise the monthly rent by a huge percentage each year. That can quickly turn the once-affordable space into a financial burden.

## Property taxes

Depending on the lease type agreed to, your company may be required to pay a portion of the office building's property taxes. Make sure that not too much is required in terms of this payment. Ideally, the amount of money paid for property taxes should be directly related to how much of the office building is occupied by your company.

Keeping an eye out for these often hidden expenses will ensure that the lease always remains favorable and the office space is a significant advantage to your company, rather than a financial burden.

# CHAPTER 12: BUILD-OUT

Tenant improvements, as well as the allowances given by landlords to fund these improvements, can be a pivotal part of any commercial office lease. Before undertaking negotiations surrounding a build-out, many tenants have the same basic question: how much do tenant improvements typically cost?

To get the most thorough idea of the projected cost of a build-out, it is advisable for a company to go through the space planning process to narrow down specifics. There are some general ballpark figures that can give you an idea early on about the costs of a build-out.

## ADDRESSING DESIGN AFTER THE LEASE IS SIGNED

Following the signing of the lease agreement, your company can then begin addressing the design components of the new office space. The workplace designer will need to have a needs analysis, space plan, and test fit so that they can get right to work using the most accurate information. You should plan to have all this completed before seeing the designer.

Optimizing an office space is not just a space improvement. It directly correlates to the organization's productivity. It can work as an investment in your company's future, enhance the ergonomics of an office, improve the business culture, and make departmental communication more efficient. Follow the delineated stages below to ensure the best build-out process for your company.

### STAGE 1: DEVELOPMENT AND APPROVAL

It will be necessary to ensemble a capable team, including a designer and a project manager that can develop the design scheme. Make sure these people are fully briefed on the goals of the company for the design stage of the new office space. Begin assembling lists of furniture and finishes, as well as a detailed timeline and breakdown of costs. Make sure that all relevant documentation is submitted to the building owner and any applicable authorities.

### STAGE 2: DESIGN AND DOCUMENTATION

In the second stage, you will need to prepare the documentation that will be submitted to various contractors during the bidding process. The selection of furniture and finishes will also need to be finalized.

Furthermore, any necessary permits from civic or regional bodies will need to be obtained.

### Stage 3: Reviewing Bids

At the beginning of the third stage of the design process, you should assemble a bid review panel that will help in the reviewing and selecting of a winning bid. Review submitted bids based on pre-determined criteria and run a thorough analysis of each bid.

### Stage 4: Contract Administration

In the fourth stage, the delivery and administration of all necessary contracts will need to be overseen. The appointment of all approved contractors, including the lead tenant improvement contractor, must be finalized. Scheduling quality control inspections is also a necessity, as well as oversight meetings to ensure that the project is on time and on budget.

### Stage 5: Completion and Move-In

At the end of the process, it will be important to oversee several critical bureaucratic necessities, including final inspections and a sign-off on the new construction, as well as the issuance of a Code of Compliance certificate. Run all the final accounts and issue the cost reporting for the project. Once the contractor's defects liability period has run out perform a final inspection.

## Costs framework

The following table outlines a general idea of build costs under several different scenarios. It lays out costs for three different finish standards:

### Building standard

This is characterized as a space that has been retrofitted with paint, carpet, standard 2×4 lighting, and ceiling tiles. Add-ons can include a coffee bar and copy room laminates.

### Moderately above standard

This is similar to building standard, but with ceiling and wall add-ons and additional coffee bar and copy room laminate millwork.

### High finish

Everything already mentioned, plus new doors, a customized reception area, and custom credenza in prominent offices or conference rooms.

### AVERAGE BUILD-OUT COSTS PER SQUARE FOOT

| Finish quality | New building | Class A/B+ | Class B-/C |
|---|---|---|---|
| **Standard for building** | $43 | $30 | $25 |
| **Above standard** | $54 | $40 | $33 |
| **High finish** | $70 | $56 | $48 |

Keep in mind that costs vacillate from season to season based on several factors, including shipping and fuel costs. These costs can also be higher or lower in different urban or suburban markets. It can, however, give a ballpark range of numbers to consider as the process of negotiating and conducting a build-out begins.

### BUILD-OUT TERMINOLOGY

Here's a few of the words you may not know already that you're likely to hear tossed around at this stage.

| Term | Definition |
|---|---|
| **ADA** | Americans with Disabilities Act; usually refers to how a building is modified to comply |
| **AV** | Audio Visual |
| **Cat 5, Cat 6** | Data cabling |
| **Cold shell** | HVAC is at the shaft wall and the fire sprinkler only meets minimum code |
| **Warm shell** | HVAC mains, electrical panels, and fire sprinkler mains are installed |
| **Concealed spline ceiling** | The most difficult type of ceiling to work in |
| **Conduit** | Steel tubing that contains wiring |
| **Core walls** | Walls in the center of the floor |
| **DB** | Design Build |

| | |
|---|---|
| **Demountable walls** | Walls that can be reused |
| **Doghouse** | Floor monument |
| **Floor cores** | 3” to 4” diameter holes through the floor |
| **Hard demo** | Demolition of concrete or steel |
| **Soft demo** | Demolition of walls, ceiling, and flooring |
| **HVAC** | Heating Ventilation Air Conditioning |
| **Indirect lighting** | Lighting that points toward the ceiling |
| **Interconnecting stair** | Secondary stairs that are installed in addition to the primary building stairs |
| **Linear diffuser** | Long narrow air distribution device |
| **Mechoshade** | Type of vertical rolling window shade |
| **MEP** | Mechanical Electrical Plumbing |
| **Millwork** | Cabinets and woodwork |
| **OTC** | Over The Counter |
| **Path of travel** | Drawings that show how to exit the building in an emergency |
| **Plenum** | Rated above ceiling for air |
| **Strobe** | Flashing light for fire emergencies |
| **Supply/return air** | Affects temperature and quality of air |
| **TI** | Tenant Improvements |
| **UPS** | Uninterruptable Power System |
| **VAV** | Variable Air Volume |
| **VD** | Voice/Data |

# CHAPTER 14: MOVE IN

Once the ideal new space has been found, negotiated, and the lease is signed, your company still faces the sizable task of relocating the entire business. When approached systematically, this process can be relatively pain-free. The following checklist gives a basic framework to follow when planning for and executing the relocation to a new office.

## INITIAL STEPS

- Give sufficient notice to your current landlord.
- Search for, interview, and hire a moving company.
- Create a list of all clients, vendors, and associates who need to be notified of the move.
- Inform staff of the date of the move and give them a breakdown of the new location.

## BEFORE MOVING DAY

- Confirm that any freight elevators or docks at the new location are reserved on the move date.
- Confirm that your company's insurance plan covers the move.
- Arrange and set-up new phone and internet accounts.
- File a change-of-address with the USPS.
- Run an inventory on current furniture.
- Order new furniture as needed.
- Order stationery with the new address.
- Make sure that permits and licenses are in place.
- Send out a change-of-address announcement to all associates, clients, and vendors.
- Conduct a team meeting at the new site with any IT staff or design and construction specialists, along with the chosen mover, to confirm that everything will be up and running on the day of move-in.
- Change locks and passcodes for the new location as close as possible to the move date, and distribute the keys to appropriate staff.
- Allow the staff to tour the new location before the move.
- Set up appropriate emergency procedure training for the new location.

## MOVE-IN DAY

- Send all computers, servers, phones, etc. first and have them set up at the new location.
- Confirm that the AC or heat is turned on prior to the move.

## POST-MOVE

- Do a walk-through and assess all moved items; submit damage reports to the moving company, if necessary.
- Send out new phone lists to all staff.
- File warranties on any new equipment or furniture; make sure that the fixed asset accounting system reflects these new additions.
- Make sure that your company's insurance has been transferred to the new location.
- Run an audit on keys and passes for the old facility; collect them and confirm that they have been returned to the old landlord.
- Send out a press release announcing the move.

Ensuring that each of these items is covered within the appropriate time will also ensure that the relocation happens in as pain-free a way as possible.