



Commercial real estate 101: Moving out of your home office

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Today, more than ever, people are opening up their own home based businesses. As long as you have a computer, fax machine and telephone, you can do business anywhere! But at some point the home based business owner begins to realize that even though you have the advantage of being able to work in your pajamas, while saving money on gas and rent, there are certain advantages to moving the business outside of the home.

Some of the advantages to obtaining office space are: 1. The ability to grow your business is multiplied when you occupy a professional space. It is impractical, if not impossible, to hire the additional people needed when operating out of your home; 2. Having an office space creates a professional image; 3. It enables you to separate your business and personal lives - something home-based business owners have a difficult time doing; and 4. You create the potential for attracting more larger clients who will not do business with someone operating out of their home.

I receive many calls from such business owners who are looking for their first office space. The problem is that they do not know where to begin. Taking your home based business out of the home is a giant step forward. Going from paying no rent to even \$1,000 a month is a big jump for some small businesses.

What should the small business owner consider when contemplating this move?

1. How much can you afford to pay in rent? Have your accountant assist you in making this determination. Your accountant knows your entire financial picture. The amount of space you need is directly tied to how much you will need to spend, since commercial space is priced by the s/f. Once you sign a lease, you are committed to making the rental payments, so be sure you can afford them!

2. How many s/f do you need to occupy? Someone who has never looked for office space, will have no idea how much space they need. First, figure out what rooms you will need: How many private offices? Do you need a conference room? An open bullpen area? How many people will be working for you? Get a ballpark estimate and then go out and look at some space. You need to take into consideration that if you look at a building that has common areas, this area will be added into your s/f on a pro rata basis. This is known as a "loss factor." When commercial space is measured, it is measured from the outside structure of the building and not the inside walls. These are the reasons why, if you measure your space, it will be smaller than the size quoted by the landlord.

3. Does the space work for you "as is," or does it need any improvements? When a space does not work for you as it exists, that means more money out of your pocket. In this market, landlords may pay for painting and carpeting if the lease term is long enough; however, any needed improvements will most likely be borne by you, the tenant.

4. How long a lease should you sign? If your business is less than three years old, I would suggest a one or two-year lease. If you have an established business, a longer term lease would be

appropriate. A new business still needs time to test the waters. Just be as certain as possible that you will be able to pay rent for the term of the lease since you will most likely be responsible for it, whether or not your business survives. Ask your attorney about personal guarantees and good guy clauses. Particularly with a startup business, landlords are likely to ask for a personal guaranty. Having your attorney negotiate a "good guy" clause into the lease may help you if your business goes under.

5. Do you have a real estate attorney who will assist you when it comes time to sign a lease? A commercial lease is complicated and can make you responsible for all sorts of things. Hiring an attorney is important; however, it must be an attorney who specializes in commercial real estate. Typically, leases are favorable to the landlord. An attorney who does not specialize will miss important details in the lease. Be sure to analyze what other charges will be incurred. For a first time office tenant, the best case scenario would be to find a situation where you sign what is known as a "gross lease" which is basically one charge for everything, except utilities which may be paid for by the tenant. Your attorney will be able to advise you as to all the other possible pitfalls.

6. Make sure your space provides for all your needs. Do you need Internet service? Do you need T-1 lines? Does the space provide adequate parking for you and your employees? You definitely do not want to move into a space and then find out you do not have what you need to operate.

7. Do you have enough money to provide for your startup costs? When you sign a lease you need first month's rent and a minimum of one month of security for leases under three years. You will also need to buy office furniture, a phone system, computers and different types of insurances that will be necessary once you have established an office.

Moving your business out of your home is one of the most wonderful and important steps in taking your business to the next level. Do not let fear get in your way! Take it one step at a time and plan carefully! Be sure to look at the big picture!

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