



Tenant Representation: How a tenant defines its needs: By employee growth rate, space and budget

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The old residential real estate brokers adage "buyers are liars" has an element of truth. The reality is that buyers do not know what they want. In commercial real estate, tenants think they know what they want. They come with a wish list. It is rarely based on the reality of the marketplace, their budget or an understanding of the timing of a transaction. They are not liars, they are merely uninformed. In my 30-year career, I can count on one hand the number of tenants that had created a list of wants and needs including a budget. By having an accurate idea of what is needed in the beginning, a tenant will save time and money in the end.

How does a tenant define its needs? There are several basic questions that a tenant can ask to define its needs.

First, how many employees do you intend to accommodate? While this may seem like a simple question, there are many other questions that derive from it. What is your growth rate? How many employees do you anticipate? How much space do you want to take today for future growth? Can you get options to expand or contract the size of your space? The floor plate of a building will place a limit on the number of employees that can be accommodated before a second floor is needed which would split an operation. The number of employees is the most basic question and the one that drives the entire relocation process.

Second, how many offices, cubicles or hoteling space is required? For a broker, understanding the type of business a tenant is in dictates the s/f per employee that a tenant needs. Law firms can take upwards of 1,000 s/f per attorney. Technology companies can take as little as 75 s/f per person. Most businesses are somewhere in between. How the business operates affects the type of architectural layout a tenant will have. Law firms are office intensive while technology companies use benching - one long shared desk. This affects the cost of construction. It also affects the type of building that supports the use. For example, technology companies tend towards loft buildings where open space and high ceiling are the norm. For attorneys, these buildings are less efficient because the window lines do not allow for typical office sizes. Attorneys gravitate to newer buildings because they are designed with regular window spacing geared to standard offices.

While many companies and real estate professionals are familiar with the concept of a "loss factor," many executives are not and it is a big shock. The loss factor is the difference between the rentable s/f (the area you pay for) versus the area that can be carpeted (the "carpetable area"). This difference can be considerable and has a huge impact on costs.

Third, what is your timing? Most often a lease expiration is the overriding consideration that drives a move or lease renewal. However, there can be other motivations such as growth, downsizing or, more recently, the demolition of an existing building. The larger the tenant the more time is required for all aspects of a transaction: the negotiations of the business terms and lease; the creation of the

architectural plans and the construction. Understanding your needs in the beginning can expedite the process. Your broker can also determine what spaces fit your timing. If you need space in a year, space that currently is available may not be a good fit versus spaces that will be coming available six months from now. Timing has an impact on the economics of a particular transaction. Lastly, what is your budget? Most tenants have an idea of what they can spend on their space. Whether the budget can support what they want to do in their space is another question. The budget will dictate many issues such as the type of building (i.e. class A versus C); location (central business district versus a suburban location) and image. Because personal is normally the greatest expense for most businesses (real estate is the second), real estate budgets adjust to a company's ability to attract employees. For example, if the company needs to be in a "hip" location to attract creative types, it may have to spend more money. This is when budgets become flexible - when the overall business requires it. While understanding a company's budget is important to get a space search underway, it is the most malleable.

Please be informed: Answer these questions before you start seeing space!

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