



## Hunt Corp. CRE Q&A: Renew or move? - by David Hunt

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**Q:** We lease approximately 7,000 s/f of office space for our law firm. The space works well and is in a good location for our employees. Our lease expires in a year, and we have an option to renew. Is it really worth the effort to consider moving?

**A:** My answer is a resounding yes, if for no other reason than your present landlord is probably counting on your inertia to renew the lease. The most economic decision could very well be to stay – but there is only one way to find out, and that is to test the market. And this includes your landlord. An option to renew is a one-way street in your favor. If the terms are favorable, you can exercise the option. If not, you ignore your option, and make it clear to your landlord that you are considering a move and that you expect him to put his best foot forward.

My first recommendation is an objective evaluation of your choices. After surveying the marketplace using the services of a good real estate broker, a Request for a Proposal (RFP) should be prepared and sent to potential candidates. Even if your renewal rate seems better on the surface, competitive responses to an RFP will keep your landlord on his toes. Once the proposals are received, they should be objectively compared. For our clients, we prepare a discounted cash-flow analysis of each alternative. We would include the actual cost of the move in every alternative except the renewal.

If the objective analysis is positive, I would move onto a subjective evaluation of the alternatives. If your existing space is to be renovated, how is this to be accomplished while you are conducting your business? How will a physical move disrupt the company? How will a new location affect your employees or clients? These types of issues do not lend themselves to spreadsheet analysis, but nevertheless, are very important in evaluating your alternatives.

You can use the objective analysis to “frame” the cost of your subjective decisions. As an example, let’s say your present office building does not have a coffee shop within the building, but a new location does. You may decide that this is an important criteria. Employees do not have to leave the building for lunch, or perhaps the coffee shop can be used as an additional “conference” area with clients. All other criteria being equal, the differential in cost between the two locations will give you an idea of the “cost” of the coffee shop, and you can make your decision from there.

Whether you move or not, a marketplace analysis should be done prior to every lease renewal. It may reveal substantially better options, and at the least, will provide ammunition for renewal with the

existing landlord.

Do you have a question regarding commercial real estate? Email your question to Commercial Real Estate Q & A, at [email@huntcorp.com](mailto:email@huntcorp.com) for possible inclusion in a future column.

David Hunt, MCR, CCIM, SIOR is the president of Hunt Corporate Services, Inc., Plainview, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540