



Hunt Corp. Commercial Real Estate Q&A: Subleasing blues - by David Hunt

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David Hunt

Q: Our company needs to move to larger offices, but we still have nearly two years to go on our existing lease. Subleasing has turned out to be very difficult. What are our options?

A: Your subleasing is probably difficult because of the short term left on your lease. A lease is a depreciating commodity, with its value falling sharply in the final years. Few companies want to incur the expense of moving, phone installation, computer systems, printing and the like, when these costs can only be amortized over a couple of years. Yes, you have those “subleasing blues,” but there are still alternatives. These are my recommendations, in order of priority.

Your first stop should be a discussion with the landlord of the building. It may seem that a landlord can afford to take a cavalier attitude at this point in time, but in fact, a lease expiration that is only two years away should already be on the radar screen of a conscientious landlord. He has a very real advantage to finding a new tenant and negotiating a new lease while you are still paying rent. The principal advantage is that he reduces his period of vacancy and possibly construction.

My next recommendation is a marketing campaign that includes the landlord. What sort of terms would he be willing to give your subtenant for an extension behind your sublease? Would he consider a new lease now, releasing you from your present obligation? Both of these options would allow you to offer a longer term to your prospective tenants, and therefore, vastly increase your odds of leasing the space.

Failing this, I would explore the possibility of a lease termination agreement with the landlord. Is there an amount of money that he would consider to simply terminate the lease? Your landlord may have another tenant with expansionary requirements, or a prospective tenant who could use space such as yours. This strategy is also a function of the market, and the differential between your scheduled rent and what the market will bear today. If your rent is substantially below market, the landlord may be very happy to see you go. Or, this can get very expensive! Lease termination agreements with the tenant paying fifty cents on the dollar, up front, upon lease termination, are not uncommon.

In a tough leasing market, a landlord may not be willing to terminate the lease at any price. Then, your final alternative is to offer an extraordinary incentive to your subtenant to enter into an agreement. This might be a drastic price reduction, such as 50% of market rent. Or it may take the form of rent concession. Either option offers the prospective subtenant a way to offset the high cost of moving, and may be incentive enough for the subtenant to “take his chances” on a renewal of the lease at the end of your term.

So, there are alternatives for you to consider, but this is not a time to procrastinate. Every passing month makes a short-term sublease more and more difficult to accomplish, so I urge you to move quickly.

Do you have a question regarding commercial real estate? Email your question to Commercial Real

Estate Q & A, at 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