

In renewing office lease, be on lookout for hidden costs

Expert Opinion

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Published: April 27, 2009

Expert Opinion offers the insights of law-firm management specialists on a variety of topics related to the administration of a law office.

The lease on your current space is coming up for renewal, and you are preparing to start the process or face having to move the firm to a new location. Either way, it will likely be your second largest expense line item, affecting your firm for many years. Here are some tips to guide you along:

Know your space needs for today and the future - You do not want to be stuck with too much or too little space. Guess wrong, and it could cost your firm for many years to come.

Assemble your team - Your team should include key attorneys and staff, who represent the firm and can conduct all research and analysis. If your firm does not have a real estate attorney, you should retain one to help review the lease. Research on your own, by reading the trade magazines, to help you gauge what the status of the market.

A commercial real estate broker, who will know the market rate for your building and comparable space in your area, is also an important team member. That person can help you get the best deal possible by giving you insight into how the rental market is doing. It has been my experience that trying to proceed without a real estate broker on your side, in the hope of negotiating a lower rent, never works and usually ends up costing the firm money.

Lastly, a project consultant, who will also save you money by helping you determine the cost of renovating your existing space or building out new space if needed, should be on the team. Such a consultant will work hand in hand with your real estate broker and help put an accurate and complete cost on your lease.

Look like a hero at your firm - Know the type of lease you have. Most leases in Boston are gross with stops, meaning operating expenses and real estate taxes are included in your base rent, typically in the form of a base year. In subsequent years, you should plan on both these expenses increasing by at least the rate of inflation, increases that can add up over time.

Take a careful look at the operating expense line item and real estate tax history for the property. Your broker should have someone on staff who can review these expenses for you.

Renegotiate any expenses that are not in line with industry standards prior to signing a renewal or new lease.

Start your renewal process early - The more space you need, the sooner you need to start. Eighteen months is not too soon for most firms.

Tour other spaces - Even if you plan to stay in your current space, take the time to tour other buildings. Your current landlord is likely to learn that you are looking at alternative space, and such forays will encourage your lessor to make a competitive offer to you. Your field research will also give you a good sense of what other landlords are willing to offer to get you to move to their buildings. Additionally, you may find space that works better for your firm.

Evaluate the disruption to your firm - Part of renegotiating your lease is determining what tenant improvements the landlord is willing to pay for to bring your space up to standard (or better). If your space needs extensive renovations that will cause serious disruptions at your firm, you might decide that moving to new space is a better alternative. Asking for concessions, such as "swing space," might make working through a renovation easier.

Look for deal sweeteners - Many landlords will not go below certain per- square-foot rent numbers, but they are willing to "sweeten" a deal by including additional tenant improvement money to help with your renovations; reducing your firm's potential out-of-pocket costs; or giving you "free" rent. Work with your broker and consultants to find out what others are offering.

These are just a few of the steps you can take. There are additional resources on the Association of Legal Administrators website (www.alanet.org).

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