

“Tenant Opportunity – Managing Expectations
– The Lease Expiration Decision”

In Atlanta, as in most markets, the amount of “Sublease” space offered for lease is approaching an all-time high, although it still lags behind the “dot.com” implosion of early 2002. For many firms, this looks like Opportunity with a capital “O”. It is important to take advantage of the surplus, but equally important to take a long-term view and lock in great terms before the market rebounds.

One of the most overlooked risks of taking a Sublease is the credit strength of the Sublessee, or primary Tenant. If a firm can’t pay their rent, or is downsizing or imploding – this could spell trouble down the road for the Sublessee. Almost all Sublease agreements have the right for the Landlord to collect direct from the Sublessee, in event of default by the primary Tenant. However, the “cheap” terms negotiated under a Sublease would surely evaporate if the primary Tenant quit paying rent to its Landlord.

Take a close look at all the options, physical and intangible, available to your firm when considering a new lease. Can you leverage your potential Sublease options, and cut an equally attractive direct deal with the Landlord? Does the Sublease deal provide the layout efficiencies, tenant improvement allowances to make alterations, and term security so your firm defers the relocation process as long as possible? What will be your required security deposits, letter of credit, and personal guarantees?

Will this location enhance your profitability and company growth?

To be sure, the current financial times now dictate an asset manager and their lending partners scrutinize not only a potential Tenant or Sublessee, but also the economics of the transaction to protect their investment. Each individual property owner has different philosophies and criteria to adhere. There are better deals offered in separate markets, and even in separate buildings within a submarket, if the tenant has flexibility. What amenities, access, curb appeal, etc. can you live without, and what must your firm have to keep the best employees? And just how financially strong is the property Owner and what is their track record of property management?

Trust your commercial agent not only to show you different properties, but also to explain the pros and cons of each consideration!

