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 Guest Columnist

How to Control your Largest Overhead Business Expense

As a business owner or representative for your company, you have the opportunity to control one of your largest overhead items: your office space cost.

Occupancy cost is often the second or third largest fixed cost a tenant faces and may consume up to 50 percent of net revenue. Whether you are relocating or renewing your office lease, purchasing an existing building or developing a new site, put time on your side by planning ahead. You can often gain big savings and extra benefits by beginning the search well in advance of your lease expiration.

For example:

Lease Negotiations beyond monthly rent - In leasing, the savings are not only in obtaining the most competitive rental rate, receiving the maximum free rent and allowance for construction improvements, but also in breaks on costly lease terms beyond the monthly rent. Look closely at these important areas in the lease:

- Operating Expense Controls/Audit Rights
- Rent Escalation Clauses
- Reduced Individual Liability for Partners and Limited Liability for Corporate Tenants
- Options/Expansions, Renewals, etc.
- Sublease/Assignment Rights
- Proper maintenance of property

Starting early gives you bargaining leverage with your future landlords. They want your business and you will find out just how much! Larger space users should start the process much earlier than a smaller office of 5,000 square feet or less. Your representative should provide an appropriate time to when this process should begin, but six months to two years is a good guideline.

Tenant/Buyer Representation - It is very important to understand that the broker at the building or the listing broker does not represent you. He or she can only represent the landlord's or owner's interest. Therefore, it is a good idea to have an agent who serves tenant or buyer interests exclusively.

The compensation for a tenant/buyer agent is factored into the rent and/or sales price and you pay whether you choose to have an agent or not. A Tenant/Buyer Representative will basically “bring the market to the table,” which includes negotiating the most favorable terms possible for you. This can save you and your company time and money.

New Tenant vs. Renewing Tenant - A Landlord Representative knows that the new tenants are “shopping the market” and will require favorable terms. However, as a renewing tenant, you may not get such consideration. They may assume you don't want to move so you're not shopping around as much. So, it is important to make your current landlord aware that you are expecting the most competitive proposal in leasehold value on a renewal — and that you are prepared to seek the most cost-effective alternative in the marketplace.

Clarify Objectives in Advance - Are you primarily interested in enhancing your company image, cutting your rent costs, locating a more skilled labor pool, reducing employee travel time, escaping government regulation, providing for future growth or turning your real estate holdings into assets rather than expenses? Answering these questions will help set the stage for locating the ideal office environment.

With careful planning and tough negotiating, you are likely to get reduced occupancy costs across the board. So, get started early to benefit greatly!

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