



Kidder Mathews

# BEFORE YOUR NEXT OFFICE LEASE

What to know, what to do and what to watch for!

January 2018

# OVERVIEW

Timeline of Major Steps

Lease Provisions to Watch Out For

Expect the Unexpected!

**NOTE:** Please hold your questions until the end of each section; there's lots of helpful information here, and I want to make sure I cover it all for you!

# LEVERAGE

**GIVE ME A LEVER LONG ENOUGH  
AND A FULCRUM ON WHICH TO PLACE IT...**



**...AND I SHALL MOVE THE WORLD.**

**-ARCHIMEDES-**

# LEASING – TIMELINE OF MAJOR STEPS

## 9 – 12 Months Prior to Lease Expiration:

- Remember - Time is a proportional lever
  - The more time you have, the more problems you can solve
  - Planning >12 months out is conservative, but you can't go wrong
- Meet internally to discuss Budget, Layout, On-site v. Off-site Staff, Location, Projected Growth, and Problems to Solve
  - What are your “must-have’s” and “nice-to-have’s”, even if you stay?
- Interview & hire a broker, then talk with them about the results of the above
  - Do an initial tour to refine the search parameters & your wish list

# LEASING – TIMELINE OF MAJOR STEPS

Field Marshal Helmuth Von Moltke the Elder



*“No plan ever survives  
contact with the  
enemy”*

# LEASING – TIMELINE OF MAJOR STEPS

## 5 – 9 Months Prior to Lease Expiration

- Tour until you have at least two (2) good options, preferably three (3)
- Submit Letters of Intent (“LOI”) to top choices
  - Multiple offers are essential in today’s market
  - Include your financials or the web link to your 990
  - Include details, such as landlord’s responsibilities, delivery condition, etc.
    - The more you include, the more you’ll know about the landlord!
  - If you’re large (40+ staff), consider an RFP to your top 2-3 choices



**LET THE GAMES**

A close-up photograph of a raccoon's face and upper body. The raccoon has its characteristic black and tan fur, with a black mask around its eyes. Its mouth is slightly open, showing its teeth. Its hands are clasped together in front of its chest in a prayer-like gesture. The background is a blurred natural setting with brown and green foliage.

**BEGIN!!!**

# LEASING – TIMELINE OF MAJOR STEPS

## 5 – 9 Months Prior to Lease Expiration (continued)

- Research the landlords whose buildings you've decided to focus on
  - Ownership history, debt, reputation, plans for improvements, etc.
- Review 3-year operating expense history (more later)
- Build comparison financial model to determine relative cost of occupancy
  - Look carefully at **all** costs, including non-financial
- Engage an architect / space planner (yours or the landlord's) to draft preliminary space plans for top 2 – 3 choices...which is the best fit?
- Choose the winner, sign the final, negotiated LOI, and get it counter-signed
  - LOI is non-binding, though infrequently abandoned
  - Landlord will draft the lease
  - Verify all terms of the LOI are in the lease!



# LEASING – TIMELINE OF MAJOR STEPS

## At least 4 Months Prior to Lease Expiration

- Negotiate and sign the lease
  - Timeline from draft lease to signed lease is usually 3-6 weeks
    - Depends on lease complexity, unexpected hiccups, positions of the parties, and priorities
  - Get it right, but don't over-negotiate
    - You can “win the battle, but lose the war” with less of a sense of goodwill from your future landlord
  - Finalize space plan with architect (yours or the landlord's)
    - Include the final space plan in the lease

# LEASING – TIMELINE OF MAJOR STEPS

## 3 Months Prior to Lease Expiration

- Tenant improvements can't start until:
  - Lease is fully executed
  - Checks for 1st month and security deposit are received
  - Contractor mobilizes project team
- All of the above almost always takes longer than you think!
- Order telephone and internet service
- Order IT cabling and any new server equipment
- Ask for bids from at least two (2) moving companies
- Order any new (or pre-owned) furniture, plus stationery, business cards, etc.

# LEASING – TIMELINE OF MAJOR STEPS

## 2 Months Prior to Lease Expiration

- Monitor progress on tenant improvement project
- Keep a close eye on schedule for any delays (carpet comes from Georgia!)
- Hire mover (and/or move coordinator) and schedule move date
  - Plan to move 1 – 2 weeks prior to lease expiration
  - You want buffer time for delays + repair/restoration (security deposit)
- Reserve the elevators at **both** buildings
- Try **not** to move on the last Friday of the month
- Meet with internal relocation team to discuss move checklist
  - Who will be responsible for what & by when?!

# LEASING – TIMELINE OF MAJOR STEPS

## 4 Weeks Prior to Lease Expiration

- Inspect space to make sure it's looking the way you planned!
- Confirm landlord has received certificate of insurance (and that it's right!)
- “Substantial completion” by the general contractor (“GC”)
- Punch list walk-through (with landlord, GC, architect, your broker)
  - Usually takes 1 day to 1 week to complete punch list items

## 2 Weeks Prior to Lease Expiration

- Relocate
- Flag your calendar – Lease expiration, Advance reminders, Option(s) exercise dates, Security Deposit Burndown (if any), etc.
- **Celebrate your new space with your broker!**

# LEASING – TIMELINE OF MAJOR STEPS

## A Word About Brokers

- A good one will save you real money & time
- Consider hiring a broker who solely works with tenants
- Ask for references, then call them
- Work exclusively, simply, and understand how they will be paid





# LEASE PROVISIONS TO WATCH FOR



# LEASE PROVISIONS TO WATCH FOR

Terms negotiated in the LOI v. what's drafted in the lease

- Do they match?

## Basic Lease Summary

- Double-check all the numbers

# LEASE PROVISIONS TO WATCH FOR

## Square Footage

- Gross – Total in the building
- Rentable (“RSF”) – What you pay for
- Usable – What you can step on in your space

# LEASE PROVISIONS TO WATCH FOR

## Rent

- Type of lease
  - Triple Net or “NNN” – Don’t fear it; Expenses can go down
  - Full Service Gross
  - Industrial Gross or “IG”
- Rent increases
  - “Market” is 3% these days
- “Free rent” – Is it truly “free”, or is it a cash-flow tool?

# LEASE PROVISIONS TO WATCH FOR

## Base Year

- What is it?
- How is it set?
- How does it work?



# LEASE PROVISIONS TO WATCH FOR

## Operating Expenses

- Operating expenses v. capital expenses
  - Beware the word “replacement”!
- Your RSF will determine leverage with negotiating what’s included / excluded from Operating Expenses
  - Bigger tenant = more leverage

# LEASE PROVISIONS TO WATCH FOR

## Property Taxes

- What happens when the building is sold?
- No Prop 13 protection...

# LEASE PROVISIONS TO WATCH FOR

## Services and utilities

- Plumbing & Electrical – Enough outlets / circuits / power?
- Landlord responsibilities
  - Building standard overhead lights & ballasts
  - Elevators
  - HVAC
  - Water and where?
  - Who repairs?

# LEASE PROVISIONS TO WATCH FOR

## Return your existing office to the landlord at lease expiration

- Condition / cleanliness required by your lease
  - “Broom-clean with normal wear & tear” is typical, but double-check
- IT cabling
  - Removal? Retention? Who’s responsible? Review your lease early
- Walk-through with your landlord and take photos 1 week prior to move-out
  - No surprises!

# LEASE PROVISIONS TO WATCH FOR

## Security Deposit

- When is it due?
- When is it returned?
  - After what happens?

## Grace Periods, Interest and Late Charges

- Don't wave the red cape in front of the bull
  - Unless it's truly egregious, leave it alone



# LEASE PROVISIONS TO WATCH FOR

## Rules and Regulations

- Read carefully and share with your staff

## Commencement Date Addendum

- Often forgotten, always important, and always send to your broker!

# LEASE PROVISIONS TO WATCH FOR

## Holdover Clause

- 150% is current “market”
- Watch for letters v. numbers in the lease
- Plan ahead, so this never becomes an issue!

*"If you are a good businessman, you don't come to the end of your lease and say, 'I have no options, landlord, please take me to the woodshed and beat me.' We'll have options."*

– Steve Ballmer, former CEO of Microsoft  
and Owner of the Los Angeles Clippers

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# EXPECT THE UNEXPECTED



# EXPECT THE UNEXPECTED

Board Concerns

Construction Estimates v. Actual Cost

Construction Delays

Vacations

Illnesses

Deaths

Power Outages

Bottom line...things will take longer than anticipated, and having extra time preserves leverage!

## PRESENTER BIO

### Paul Picciani

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- Exclusive focus on office tenant representation, which means your best options are my only motivation
- Emphasis on, and passion for, working with nonprofits and foundations
- Recommendations for full range of support resources for tenant relocations (movers, furniture dealers, painters, electrical contractors, architects, IT experts, etc.)
- Highly tuned in to current market conditions and options on both sides of the Bay
- Reputation for a high level of client support, from search through move-in and beyond
- B.A. – University of Connecticut
- Harvard Program on Negotiation
- Dale Carnegie Training Graduate & T.A.
  - Public Speaking & Communication
  - Sales & Negotiation
  - Management & Leadership



# SELECT NONPROFIT CLIENT LIST





An aerial photograph of Portland, Oregon, showing a dense urban landscape with numerous skyscrapers and residential buildings. The city is situated along a river, with a large bridge visible in the background. The sky is clear and blue.

# THANK YOU

Presented by



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