

DESIGN & TECHNOLOGY

Comparing Apples to Apples with Commercial Leases

- *As you shop for new leased space, compare different leases on an "apples to apples" basis*
- *Since landlords use different methods to calculate lease rates, it's important to understand all terms and conditions*
- *By having a working knowledge of lease comparisons, you maximize the physical and financial benefits of your lease arrangement*

City Center West will offer tenants a state-of-the-art, 100-person training center, concierge service, retail spaces, a common-use board room, and high-end lobby and office spaces.

As a small- to medium-sized business, perhaps your lease recently ended, or you must relocate to accommodate rapid growth. When you shop for leased space, be careful to compare different leases on an "apples to apples" basis. Because landlords use very different methods to calculate lease rates and to determine inclusions/exclusions, it is important to understand all terms and conditions clearly to achieve an accurate comparison.

One of the most significant lease considerations involves the escalation rates of rent and operating expenses. While the initial rental rate may seem highly favorable, the power of compounding can erode this perceived value very easily. Therefore, when comparing leases, calculate the rental rates all the way through to the end of the lease period. The landlord will make assumptions regarding operating expenses, such as utility costs, taxes, insurance, applicable manage-

ment fees, and janitorial and other maintenance services. Compare these assumptions with other estimates and your own calculations.

Whereas the term "base rent" seems fundamental, the extent of what is included in the rate varies from landlord to landlord. Exterior wall finishes, partial heating and air conditioning systems, flooring allowances, and lighting are just a handful of items that vary significantly from lease to lease. Therefore, monthly base rents of \$11.00 and \$14.00 per square foot with different build out allowances may in fact provide the same value.

Common area maintenance (CAM) expenses, such as janitorial services and utilities, generally apply to the building's shared space, including lobbies and restrooms. Some landlords include portions or all of the CAM and operating expenses in the rent. Verify that the estimates for these expenses cover everything in your space. As you compare





Park Bank Plaza was designed to accommodate small or large tenants.

leases, also realize that utility performance and costs vary depending upon the type of heating and cooling system provided.

It is important to understand how the rentable area is calculated. Some building owners use a national standard from

the Building Owners and Management Association (BOMA). However, some also add a percentage of the common areas to the tenant square footage, to which the rent and expenses are applied. The bottom line is that your lease cost equals the rental rate multiplied by the landlord's definition of the total leased area.

The longer your lease, the more favorable terms you can negotiate. This is because short-term leases of 3, 5 or 7 years carry more risk from the lender's perspective, and cost more for the tenant. Tenant buildouts financed over shorter periods cost more per square foot, as well.

Completing a lease negotiation can be a challenge for any company, large or small. Regardless, it is essential to be well informed of the range of factors that influence different leases. You can use this knowledge as a basis to determine the questions you should ask when negotiating a lease with a potential landlord. Ultimately, this awareness will help you to extract the maximum physical and financial benefits from your leasing effort. ■

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