TMC

Finding Space for Your Startup or Newer Business

Finding the right office space can be both one of the most exciting and disruptive challenges for a business. Over the years we've developed a roadmap for our startup and small business clients to help navigate the process of finding office space.

How do I start?
Be in position to make a quick decision by starting with clearly defined business and real estate objectives. Planned growth, location, transportation requirements, parking requirements, estimated space requirements, optimal space configuration, technology requirements, timing and budget are important to determine before you start.

In order to minimize disruption and increase the effectiveness of the search it is essential to start with a clear understanding of your needs, budget and specifications. Make sure everyone involved buys in up front to avoid bad news late. Understand the process and time commitment required to successfully find and occupy a space. If you need it sooner, it will impact your options.

Who should be involved?
Internally you'll want to appoint a project leader as the single point of contact. At a minimum, get your IT, HR and finance involved from the beginning. The leader of the group should be the individual that has the most experience in corporate real estate and facilities.

Be sure to gather a team of advisors. A real estate broker who specializes in representing tenants, particularly startups and newer businesses can be especially helpful. Startups have special needs, and the right broker will not only understand them but will be able to sell the company to property owners. Tenant brokers represent tenants (vs. landlord representatives) and have solely your best interest in mind. They are typically paid by landlords so you have the benefit of an expert real estate advisor without being out of pocket. (Full disclosure: The Mehigan Company provides corporate real estate services including tenant representation.)

Find an experienced real estate attorney to make sure you have flexibility negotiated into your lease and that the terms and conditions are customary, protective and fair. Most first drafts of a lease are very tenant-unfriendly and can cause unexpected problems for a tenant down the road. A good cost conscious real estate attorney will help you avoid these pitfalls.

When should I start the process of finding office space?
Most startups and small businesses underestimate the time and effort required to find office space. While it is possible to find an executive suite or co-working space alternative within 30 days, it's not easily accomplished and is the exception, not the rule.

If you are searching for direct lease office space there are many factors that will impact the timeline for your search including but not limited to the size space you need, market conditions and availability, negotiation time, space planning, lease documentation, permits, and build out time. In general, if you are looking for less than 10,000 sf you should work backwards from your desired move-in date and allow at least 4-6 months for your search. If you are looking for more than 10,000 sf you should allow at least 6-12 months.

What kind of financial guarantees will be required?
Landlords try to mitigate their risk by having the most financially secure tenants possible. This can be a differentiator for a landlord when accepting a tenant's proposal. So, be in position to present your company in the best possible financial light. You will likely be asked for a security deposit or a personal guaranty from the founder. Be prepared to provide financial references, tax returns, bank statements and upfront rent (or a bank letter of credit). Having a good tenant representative can significantly help you through this process effectively.

Be careful about providing a personal guaranty of the lease obligations. You will be putting your personal net worth at stake. If the company fails, the guarantor will be personally liable and that is risky.

What are my options for space?
Evaluate your options. Shared, co-working, sublease, direct, etc…

There is a direct correlation between your lease term and the number and types of options you will have. Landlords typically ask for and may require 5 to 7 year lease terms. Some will accept a three year term on a direct lease but the longer your lease term, the more space choices you will have.

Before you go to a direct lease space with a 3/5/7 year lease requirement, exhaust the shared space alternatives including co-working, incubators, subleases and executive suites. Each of these options has trade-offs and may not suite your needs but they will all have more flexible (shorter) term lengths than a direct space lease.

In an incubator, accelerator or executive suite, they assume the financial and liability risks associated with multiple tenants sharing space. You avoid having to collaborate with other tenants on space requirements, tenant improvements and costs, selection criteria, timing, and legal liability. As a result, these shared spaces tend to be more turnkey than sharing space under a direct lease but you typically will pay a premium when you do the math on rent/square foot.

If you plan to share space with another company under a traditional lease space (provided this is allowed by the landlord) either one or both parties will be on the financial hook for the lease. Regardless as to who is on the hook, what happens if one of the parties has financial problems 12 months into a 5-year lease? That's where the awkwardness arises that often leads to confusion, disagreement, and conflict with your shared space partner.

You may want to explore subleases provided they fit your timeline and flexibility. You'll be able to find sublease space at below market rates but your trade-offs will include limited or no flexibility on tenant improvements, renewal options and financial liability. Even though you are a sublessee, what happens if the lessee has financial problems 12 months into a 5-year lease? Your options will be to relocate or assume the lease.

There are other positives and negatives with sharing space under a direct lease but in our experience, most growing companies pass on this idea and instead direct lease their office space.

How do I go about finding a direct lease office space?
If you have clearly defined your business and real estate objectives and gathered a team of advisors, you're ready to find office space.

Work in tandem with your tenant representative broker to identify on-market and shadow spaces that are not on the public market. (Full disclosure: The Mehigan Company provides corporate real estate services including tenant representation.) Create a game plan for discovery of all the on-market spaces via real estate databases with your tenant representative. Reach out with a direct contact program in your target market area or target buildings through landlords, property managers, other tenants and leasing agents to identify off-market spaces. Set up a social marketing communication process using LinkedIn, Craigslist, Twitter, Facebook and an email process to spread the word about your space requirement.

How much space do I need?
The rule of thumb has been decreasing from 200 to 250 sf/person to as low as 100 to 150 sf/person. Another way to ask the question is, how do you lease the right amount of space? These are just a few things you can do to find the best combination of value and size fit for your startup or newer business:

- Make headcount projections for the expected term of the lease. Then, lease space so that around 2/3 or 3/4 of the way through the term you start reaching the occupancy limit.

- Look for spaces that are more efficient, like rectangular spaces versus angled corners of a building. No two spaces with the same square footage are the same. Floor plan and layout matter.

- Seek termination rights and expansion rights on contiguous space. You are planning to grow but moving is disruptive. Growing into adjacent space is far less disruptive to your business.

How do I narrow the search for office space?
You'll need to tour each of the viable alternatives, which can be time-consuming and non-productive if the space doesn't meet your business and real estate objectives. There are several key variables/criteria that can impact the quantity and quality of your space alternatives and help refine your search to a manageable list of alternatives.

Term. There is a direct correlation between the lease term you are willing to commit to and the quantity and quality of options you will have. The longer your lease term, the more choices you will have. Yet, the last thing any startup wants is to sign a 5-year lease only to realize in 12 months that the space doesn't actually meet your needs. Landlords typically ask for five to seven year lease terms but if you can't make that commitment some landlords have more flexible (but unpublished) lease terms and may accept a shorter than 5/7-year term on a direct lease. A good tenant representative will have relationships and direct communication with the landlords, property managers, and leasing agents to identify the buildings and spaces that may have more flexible lease terms. Be steadfast in your need to lease only for the length of term that suits you.

Price. Rather than focusing on rent per square foot, determine up front what your budget is for rent and office related costs including but not limited to parking, utilities, janitorial, relocation, tenant improvements (if responsible), insurance, furniture and other office fees. Focusing only on the alternatives that don't exceed your budget will help refine your search to a manageable list of alternatives. A building with a higher asking price per square foot does not necessarily guarantee it is a higher quality office space. Be firm in your requirement to stay within a budget that suits you.

Layout. No two spaces with the same square footage are the same. For example, a 5,000 square foot rectangular space is much more efficient and will support more people than layouts with round or angled corners. And, no two companies have the same requirements for a space plan. Do you require open space for collaboration or enclosed offices for privacy? Make sure the alternatives you select have layouts that support your business requirements.

Office layouts are dramatically different now than even 10 years ago. The open design has replaced a cube farm which years ago replaced enclosed large office designs. This willingness to make change has also encouraged boldness amongst companies to change their layout and space design, and many old space-consuming parts of an office are now considered out of style. For instance, it wasn't long ago that every office had a receptionist and a dedicated reception area at the entrance. Very large lobbies or waiting areas were also standard. Most companies have re-engineered that space and made the overall office layout much more efficient and right-sized. Gone also is the oversized conference room. It wasn't long ago that if a space had 12 employees it very likely could have a 12-person conference room. All these variables impact the efficiency of the office layout and your cost of office space.

Amenities. A kitchen, break room, shared conference room, food options, transportation, parking ratios, security, high speed internet, quality of bathrooms or even the number of electrical outlets can be differentiators between two similar space alternatives. Maybe these are not all deal breakers for you but if you identify those that are up front, you'll more quickly be able to refine your search to a manageable list of alternatives.

What is the parking situation?

Because some buildings have free parking and some have paid parking, really studying the cost, access and the actual spaces your employees and customers will park in is key. If you ask a landlord about parking and you'll usually get a ratio, and a comment that there's plenty of parking. Before you sign a lease you need to walk the parking lot, identify your parking spaces and count them. Stay away from buildings where parking is difficult or costly for your employees and customers.

How do I determine the right location for my office?

Make sure your key employees buy in up front on the geographic boundaries for your search. Relocating is disruptive to everyone and most employees will want to know whether or not the office is convenient for them to get to. If you see clients in your office, consider whether or not the location boundaries are convenient for them as well.

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