



YOUR NEXT (LEASED) OFFICE SPACE: A HOW-TO GUIDE FOR GROWTH COMPANIES

STEP-BY-STEP STRATEGIES, TIPS AND PITFALLS TO AVOID WHEN MOVING FROM SHARED SPACE INTO YOUR FIRST OFFICE LEASE

For high growth companies that are considering moving from shared office space and beginning the search for a dedicated office lease, the process is often entirely new territory. This guide offers step-by-step information about what to expect during your search for an office lease, important questions to ask, pitfalls to avoid, and strategies to help ensure that you find the best possible location for your growing company's needs

The Pros and Cons of Shared Office Space

Co-working spaces are ideal environments to grow and launch start-ups and small businesses. They're an affordable option, and provide an energetic environment that fosters collaboration within a team and between different businesses. The all-inclusive business model makes it easy for fledgling businesses to budget their expenses, and the flexible terms and ability to scale up or down as needed are ideal for early stages of business growth.

But there comes a point for many businesses when shared office space starts to feel a bit... cramped. You need more privacy, more elbow room, and the space to allow your emerging culture and brand to take root. It can also become challenging to obtain economies of scale within a co-working space that charges you the same flat rate for each new employee.



When is the Right Time to Consider Leased Office Space?

The first answer is that it's time to start considering a leased office when your shared office space begins to feel restricting. Trust your gut.

The second, longer answer is more substantial and quantitative. While every company is unique and the timing will be different based on your specific business goals and vision, in general, companies should begin to think about leasing their first office when:

- Market demand has validated your business
- You have users and your target audience is hooked
- Day-to-day operations are steady
- Investor interest is high and/or venture capital backing is secured
- Employee count ranges from 5-15 people, and is growing

If you've achieved most or all of these criteria, now is probably the right time to consider a dedicated address as the next step in scaling your business.

Why Move to Leased Space? What are the Benefits?

Shared office space is a comfortable beginning. It's probably been good to you and your team. Even though you feel the pull for a more dedicated, personalized work space, a lease may sound like a huge commitment. Is it necessary?

You don't have to move to a lease. But there are several concrete benefits that make it both appealing and a smart business decision.



Culture & Identity: A leased office offers your company the freedom to tailor the aesthetics to fit its personality and the way you like to work. That may mean bright paint colors, modern furniture and lighting, open collaborative spaces or close walking distance to restaurants and shops. Co-working spaces are where they are, and you have to go to them. Leased offices are everywhere – you find the right one to fit your business now and what you want it to become.



Productivity: What tools does your team need to be productive? Are you able to set all of those tools up the way you need to in your current shared space? Do you have access to a white board when you need it, or silence when you really need to focus? Is there enough meeting space, and is the wifi fast enough? It's difficult for people to be productive when their environment isn't arranged to support their work style and needs. With leased space, you can create an environment that will help your team focus and be productive.



Recruiting Talent: It's tough to recruit the best of the best from co-working space. Period. Potential hires want to see that you're investing in the company's future and that there seems to be real traction and growth. While an office space doesn't always mean all of that is true, it does create the perception that you are running a "real" company. And when it comes to recruiting talent, perception means a lot.



Branding: A different side of the same coin, we'll call this perception "branding". When you bring a potential new customer or client in for a face-to-face, you want them to get a specific impression of you and your company. You've probably invested in a logo for your business, and a slick website. Your office space should be an extension of that branding.

Timeline: What's the Process for Moving into Leased Space?

It usually takes six to nine months from the time you decide to obtain an office lease until your move-in date. There is a lot to get done in that period, though, so we've assembled a timeline to give you a brief overview. Don't worry – you won't need to figure all of this out on your own. A good real estate broker will walk you through all of it.



- Interview and select a broker to work with
- Document your business objectives over the short-, mid- and long-term
- Develop a growth plan
- Assess your employee demographics
- Define your space needs
 - Square footage requirements
 - Infrastructure needs
 - Location preferences
 - Amenities preferences



- Review the current real estate market
- Take tours of potential locations
- Assess and compare locations
- Prepare and submit a Request for Proposals to selected properties
- Conduct test-fits, if needed
- Select a building
- Negotiate and execute lease



- Select consultants and vendors for any build-out or construction work
- Plan and manage construction or tenant improvements (this can take 90 days)
 - For short term leases, tenant improvements will likely not be an available option and the space will be taken "as-is".
- Purchase furniture
- Internal consensus building (communications with employees, investors and other stakeholders about progress and expectations for the new space)
- Coordinate move
- Phone and internet cabling, server install, etc.
- Move in

What Types of Leases Are Available?

Traditional Direct Lease

The shortest standard lease is often for a duration of three to five years (while others are for 10 years or more), although shorter terms of 1-2 years can be found for spaces that are taken as-is without any tenant improvements.

Fast-growth companies should be cautious about getting locked into a long lease term. You could outgrow the space much more quickly, or be acquired, or grow more slowly than expected. Short-term leases are better options, and are readily available depending on the geographic market.

Alternatives to traditional direct leases, which are typically shorter in term, include:

Sublease

A sublease is available when a tenant needs to move out before its lease is expired. The landlord will often allow the tenant to sublease their space to another company to fulfill the remainder of the lease term.

There are pros and cons to subleasing space. One significant benefit is the potential for huge discounts, as the landlord and outgoing tenant are caught in a bind and need someone else to take over the lease quickly. Subleases are also available for shorter terms – often one to two years. On the downside, these spaces are more difficult to renovate to fit your aesthetic as you will need approval from both the landlord and the primary lessee. You may also need to prepare to wait longer to get into the space compared to a direct lease, depending on the primary lessee's timeline for vacating the space.

Transitional Space

This is a compromise between co-working space and dedicated leased space. It may be tailored to different industries or markets, but the most common types are executive suites, spec suites and tech suites. Transitional space is typically a building comprised of office suites or private floors with shared common facilities. Tenants share the common costs for utilities, conference rooms, catering, security, etc. Landlords for transitional space are typically comfortable working with small growth companies. They may offer shorter leases for nine months or a year as well as the flexibility to scale up into adjacent space or scale down as needed. While these spaces offer minimal aesthetic customization (you can't build out your ideal office design), they can be an ideal jumping point into a future longer term lease.

TIP: If the company you're subleasing from dissolves, your discount on the sublease could disappear or you could even be at risk for eviction.





Cost Considerations

This is the million-dollar topic: What will a leased office space cost you, and will you be able to afford it? While your current shared office space may charge \$100 per month per person, for a three-person company you will be better off staying where you are for now. It's unlikely that you will find anything suitable for \$300.

Market rate differs wildly from one market to the next, however we can give you some guidelines to consider. (A local broker can provide more specific rates for your area.)

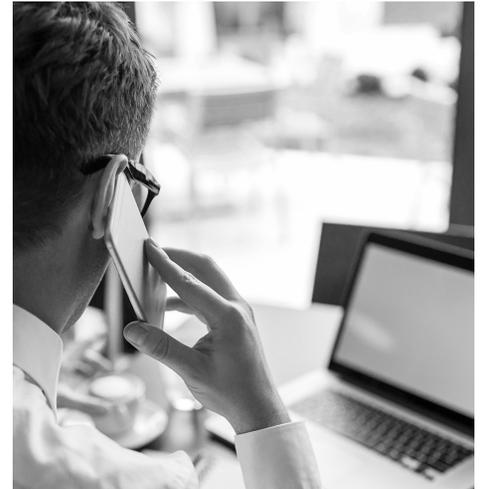
The minimum guidelines for a company that can afford to lease office space are:



USUALLY 5-15 EMPLOYEES



REQUIRES 1,000 SF+



FINISHED RAISING FUNDING FROM FRIENDS AND FAMILY, AND IS IN DISCUSSIONS WITH VC INVESTORS FOR A ROUND BACKING

Costs Outside of the Lease

Most transitional spaces have full-service leases in which all costs are included, with annual increases based on operational expenses. Or modified gross leases with additional costs (janitorial, rental taxes, utilities, etc.) This makes it easy for tenants to budget to the cost of the lease. However, it's important to understand exactly what is included in your lease, and what is not included.

Some of the common lease terms you may see include:

- **Full Service Gross:** Everything is included, with an annual escalator. While this is the easiest to budget to, it may be at a premium to cover the additional risk to the landlord.
- **Modified/Industrial Gross:** Includes everything except utilities and janitorial in a set rate, and also has an annual escalator.
- **Triple Net (NNN):** This lease is most favorable to landlords. It is comprised of a base rate with a set annual escalator that the tenant pays. On top of base, the tenant is also responsible for utilities, janitorial, taxes, insurance and common area maintenance (CAM) – all of which can fluctuate. This lease leaves more variables in the tenant expenses.

Tip: Venture capital companies want to see that your business has its own dedicated office space before they commit to funding. But A-round funding can determine growth after the round.

Ideally, you should schedule a new lease to begin right after A-round funding closes, and end before the next round is expected to close. This will ensure that your physical space and your growth plans are aligned.



Additional Potential Costs for Any Lease (including full-service):

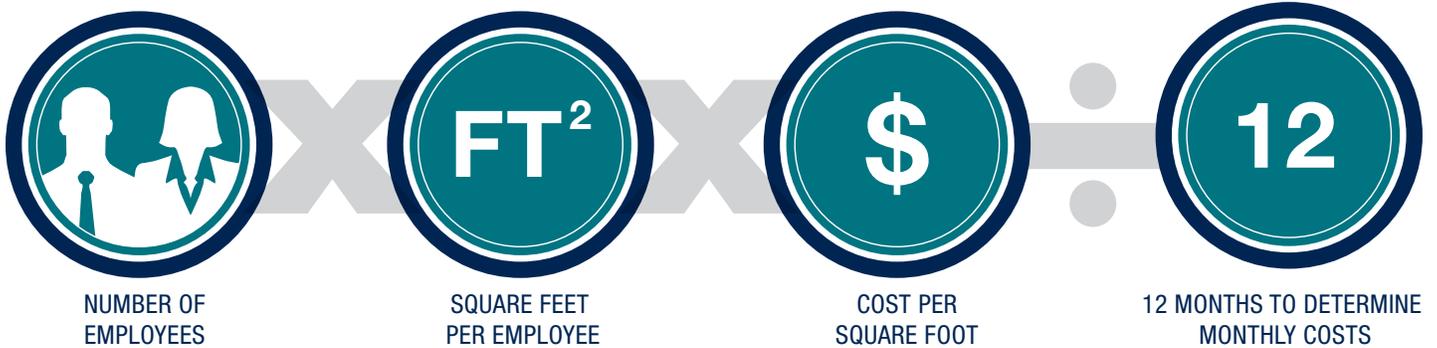
✓ SECURITY DEPOSIT	✓ PHONE	✓ PHONE & DATA WIRING
✓ MOVING COSTS	✓ CONSULTANTS <ul style="list-style-type: none"> • Real estate attorney for lease review • Project Manager • IT • General contractor • Moving company • Furniture vendors 	✓ OFF-HOURS HVAC COSTS
✓ FURNITURE		✓ WIRELESS INTERNET
✓ PARKING		✓ SERVER
✓ SIGNAGE		✓ ARCHITECTURAL & ENGINEERING
✓ SECURITY SYSTEMS		✓ CATERING OR FOOD VENDORS

Tip: It may be tempting to consider offering stock in your company instead of paying cash for rent. While this approach could leave your company with more cash on hand to grow your business, don't do it. If you believe that your company will grow, a stock trade could be the most expensive rent you ever pay. Imagine if Mark Zuckerberg had given up one percent of Facebook for office space in the beginning?

What Should My Ballpark Be?

As we mentioned already, the costs for office leases vary greatly from one location to the next. But here is a basic formula to help you estimate how much you should expect to spend on a lease:

Number of employees anticipated over the lease term multiplied by 150 square feet per employee multiplied by the cost per square foot for the preferred class of office space (A, B or C) = annual lease budget



Divide the annual lease budget by 12 to determine your monthly lease ballpark. (A broker can provide guidance with this formula tailored to your business goals and market.)

Strategy: What You Need to Prepare Before You Call a Broker

Do you have your financial statements readily available? One of the first things a broker will tell you is to prepare your financials, because landlords will require them. (Your broker will not need to see your company's financials – they just need to make sure you have them available).

There are additional documents and information that will be useful to have prepared in advance to speed along the process of finding and securing an office lease:

- Income statement
- Cash flow analysis
- Burn rate
- Balance sheets
- Bank account statements
- Business plan
- List of investors
- Growth rate
 - How many employees this year, and what do you expect 1, 3, 5 years out?
 - Establish conservative, realistic and aggressive growth curves.
- VC timeline
- Acquisition potential
- Path to profitability



In addition, you will want to consider your preferences and requirements for your future office space so that your broker can present options accordingly. You may want to consider the following items before meeting with your broker so you are prepared to discuss your exact needs:

- Square footage requirements
- Functional needs
- Priorities for your office space:
 - Branding/client impressions
 - Recruiting and retention
 - Operational functionality
 - Cost
 - Flexibility, etc.
- Desired lease term
- Aesthetics
 - Cubes vs. open vs. offices
- Amenities
 - Have to have vs. nice to have
- Geographic preference

Selecting a Broker: What You Should Expect from a Good Broker

There are a lot of commercial brokers out there. You want to make sure you choose one who will have your best interests in mind. Here are some guidelines for what a good broker should bring to the table:



Market Analysis

Your broker should provide information about average rents in your target areas, vacancies in the market, where the market is trending, and what types of concessions landlords are offering.



Comps

An abbreviation for “comparables”, these will show you what some sample office spaces are going for in the area. It will help educate you on what you can expect to get at what price. Often, office comps are divided into Class A, B and C space. The classes of buildings are market-specific and subjective, and your broker can explain the guidelines in your area.



Know Landlords That Fit Your Needs

Brokers know how traditional landlords view high growth companies (too risky), and they should also know which landlords are comfortable working with start-up ventures.



Advice on Economic Incentives

Many states offer economic incentives in the form of tax breaks for businesses who commit to hiring a certain number of employees per year, or meet other growth figures. These incentives usually must be obtained before executing a lease, and can take three months or more to process. Some brokerage offices will process this on your behalf.



Lease Negotiations

A competent broker will understand the components of the lease beyond rent and term. There are clauses that can restrict fast-moving growth companies that may need an exit strategy. Lease negotiations are complex and intricate and must be handled with expert precision.



Professionalism

Your broker should provide the same level of service that you deliver to your own customers – or better. They should respond to your questions within a reasonable time, and turnaround deliverables as promised. They should ask about and actively listen to your business goals and needs for your next office space, and respond to feedback from tours of potential buildings.

Once you have chosen a broker whom you trust, you can begin the fun part – touring potential office space locations!.



How to Compare/Evaluate Properties

Just like a residential real estate decision, it's easy to be swayed by one building's huge, tall windows and view of the lake. Or another's gorgeous brick walls and high open ceilings. But this should not be an emotional decision. The future of your business is in play, and you need to remain focused and clear about your requirements.

To help you evaluate and compare potential properties, we have created the following chart as an example, with a full version on the next page:

1 (Poor) ————— 3 (Adequate) ————— 5 (Excellent)

	OPTION 1	OPTION 2	OPTION 3
COST			
Rent	\$XX.XX	\$XX.XX	\$XX.XX
Lease term	X years	X years	X years
Lease flexibility (termination options, expansion options, etc.)	3	2	4
LOCATION			
Views	5	2	5
Parking	1	4	3
Public transportation	3	5	1

Lease Negotiations

A good broker will guide you through lease negotiations, which typically take one to two weeks. Some companies may also decide to hire a lawyer to represent them during lease negotiations. While the initial Request for Proposals that your broker submits to the properties you are interested in will address 90 percent of the language that will be in your lease, the final lease negotiations are all about ensuring that the details are in-line with your interests and business goals.

Congratulations on Your New Office Lease!

Whether this new office is yours for one year or five, it is an exciting next step in your company's growth and we are happy to provide guidance and insight during the process. If you would like to talk to a Cresa broker about properties in your area, please contact the [Cresa office nearest you](#).

Tip: In case your space needs change in the future, you should insist on including a future protection clause.

Also watch out for a relocation clause, which could allow the landlord to move you within the building at will. Find out how much downtime would be incurred, and whether you can receive a move management fee in that situation.



1 (Poor) ————— 3 (Adequate) ————— 5 (Excellent)

OPTION 1

OPTION 2

OPTION 3

COST

Rent			
Lease term			
Lease flexibility (termination options, expansion options, etc.)			

LOCATION

Views			
Parking			
Public transportation			

OFFICE SPACE

Aesthetics			
Infrastructure (internet, communications, power)			
Floor plan (offices, open space?)			
Floor plan efficiency			
Natural light			
Air conditioning/Heating			
Sound (Street noise, ambient office noise)			
Enough bathrooms			
Kitchen facility			

BUILDING

Amenities			
Operable windows			
Lobby aesthetics			
Condition of elevators			
Speed of Elevators/Type (traditional or destination controlled)			
Building Image (exterior)			
Security provided			
Access policies (keyfobs, guest check-in, buzz-up, etc.)			