

GUEST COLUMN

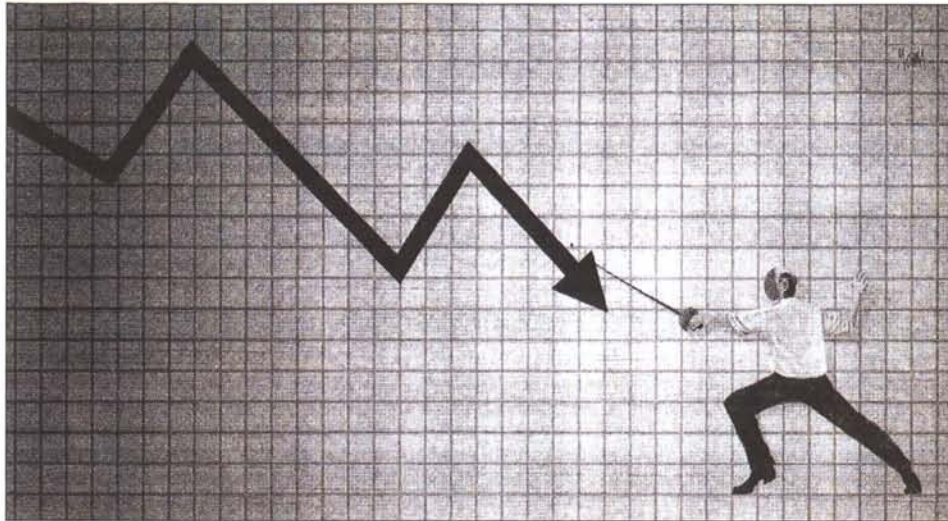
How Tenants Are Surviving These Tough Economic Times

BY RANDOLPH T. MASON

As we all realize, tough economic times require tough decisions. In talking with many tenants and other advisors, I have found that despite the tough economy, many are surviving these challenging economic times.

In most cases, most tenants are doing what they can to cut costs. This includes selective layoffs of non-key or essential employees, while at the same time asking the rest of the team to handle the extra load, if there is any. I know of one company that has a clerical and managerial staff of eight full-time employees, not including the 25-plus sales reps. While it was a very difficult decision, one of the clerical staff needed to be let go. The other staff members have had to increase their individual responsibilities in order to cover the downsized employee's work load.

I recently spoke with another company that had a total staff of 35 people, occupied more than 26,000 square feet in an office building and was required, due to funding sources, to reduce its operating costs by 50 percent. It has since then reduced its staff to 15 employees and is attempting to sublease half of its space. This brings me to the next strategy tenants are



employing: subleases.

Subleasing is never the ideal situation if you plan on occupying a portion of your space and subleasing the remainder. Most tenants would prefer not to share space with another tenant if they do not need to. Security, privacy, pilferage issues and many other concerns need to be addressed prior to making the decision to sublease a portion of the space. Unfortunately, it is often not practical to sublease a portion of the space as it cannot be easily recon-

figured to provide adequate ingress and egress, individual control of the HVAC and other systems, including telephone and computer networks. It also is extremely important for the sublessor, or tenant who is subleasing the space to another tenant, to react sooner than later. A very valued client of mine saw its business decrease dramatically and realized early on that it was going to need to sublease some space. I advised the client to go back to its master lessor to see if it would be

willing to take the space back. My thought was, you never know unless you ask. It was determined that the master lessor did not want the space back, but would cooperate with the tenant in its hunt for a sublessee. The tenant chose not to actively market the space through a real estate professional, but to attempt to sublease space on its own.

The problem with that philosophy is that in the event the tenant's respective subtenant bailed, much valuable time was lost in the market-

ing of this space. As luck would have it, the sublessor's perspective sublessee did go away. The space is now on the market for sublease to the general public. When there is such a glut of available space on the market and the activity level has diminished, it is prudent to offer prospective tenants and their representatives increased motivation to lease the space. Concessions that are common during these economic times include rental abatement or free rent, lower market lease rates, fixed operating expense pass-through or none at all, leasing incentives for procuring brokers, fees to be spent on tenant improvements within the space, and other leasing incentives.

Other areas that tenants are using to survive this market include shorter-term leases. We are finding that tenants that are looking to renew their existing leases are opting for a shorter period of time. There are benefits and detriments to this method. The benefits include a lower long-term risk for a lease obligation should the market conditions continue to worsen and subsequently force them out of business. This is extremely important to consider should one have a personal guaranty for the lease.

See MASON, page 16

MASON

Continued from page 14

Personal guaranties can often be avoided if the tenant submits a large security deposit or letter of credit. This gives the landlord some security that in the event the tenant defaults, the landlord has some months to re-tenant the space. It would not necessarily be considered an ideal situation for a landlord in that they are signing the long-term lease for the long-term cash flow and would prefer not to go through the re-tenanting expense. Other

tenants are dramatically scrutinizing their expenses line item by line item. I have one client that reviewed its income statement and more specifically the expenses literally, line item by line item. The goal was to reduce expenses in each and every area by 20 percent. The client talked about saving money on copies by limiting the number of copies people need to make. He also talked about eliminating one of the copiers which in effect forced employees to walk a little farther in order to make a copy. They eliminated the bagels and donut expense with a healthier option of apples and oranges. This was primarily done as a morale builder.

In an effort to reduce the number of employees being laid off, they took a survey to find out which employees would enjoy part-time work. They were able to scale back some full-time employees to part-time, which saved the company money along with giving the employees their desired work schedule. Another way this company saved money was by bundling the telephone, computer, fax and other telecommunication services with one vendor. They shopped around and found the best alternative for their particular business. They were about to cancel their 401(k) plan, but instead implemented a matching funds idea, which helped encourage the employees

to save more money.

The reality of today's marketplace is that employers, employees and vendors need to work together to survive through these tough times. When everyone understands that we are all on the same team this economic downturn will be minimized. ▀



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