

# Making the ends meet in a commercial real estate deal

Searching for a new building, negotiating a lease or purchase for said new building, closing the escrow or signing the lease, navigating through the city ordinances, getting phones, internet, and racking installed, AND meshing a move out of your current location and a move to new spot can be quite challenging – especially if there are some pressures at either end of the transaction.

Specifically, there is a bank with an outstretched hand – demanding a loan be repaid by a certain date – or they will foreclose. Or, there is a lease expiration looming that requires you to vacate your business home – and the owner of the building has sold or leased it to a new occupant. How about a property that has been acquired by an agency such as Caltrans? – your structure will be demolished in order to widen a freeway.

Complicating matters is an objective by occupants to avoid a double payment. Who wants to pay for two buildings at the same time when your operation can only occupy one? Very few, indeed!

So what's a mother to do when confronted with these challenges? Indulge me as I make a few suggestions.

**Start early.** Many of the challenges of a move can be avoided or at least minimized by starting the process early. Some careful planning with a commercial real estate professional can prepare you for the current market conditions: how many buildings are available in your size range, how plentiful is financing and at what interest rates, what sort of lease concessions are frequent – free rent, improvement or moving allowances – what are the most favorable cities in which to relocate, etc. I generally believe a year to a year and a half is the correct amount of time to plan, execute and affect a move.

**Be transparent.** If you lease your location, sit down with your owner and let him know that you are considering relocating at the end of your lease. But that you also want to factor in staying in his building as an alternative. If you've followed my advice below, you have some renewal and extension rights built into your lease so this meeting with the owner needs to precede any time frame notices attached to the extensions. If you own your location, you need to decide if you will keep the building once you vacate and lease

it to an occupant – other than your business – or if you will sell the building as a part of your relocation. I could write an entire post on this decision alone.

**Factor in all the potential costs.** Construct a model of all the potential costs of moving your operation – including the dreaded double payment. Planning for a double payment allows you to build this cost into your negotiation for the new space – and provide some timing flexibility. As an example, say you lease your present building. You pay \$20,000 per month in rent. Your new location will cost you \$40,000 per month and you've budgeted for this amount.

The double payment is the combination of the \$20,000 per month and the \$40,000 per month – \$60,000 per month. But, if you can persuade the owner of the move-up space to abate three months of rent ( $\$40,000 \times 3 = \$120,000$ ), you've effectively provided yourself with six months in the old space ( $\$120,000 / \$20,000 = 6$ ).

**Conduct some research.** My company leased office space in 1987. Our building was potentially in the path of the Santa Ana freeway widening – which meant our building was slated for eminent domain by Caltrans and demolition. We did the deal but negotiated a sum for moving expenses. Understanding your landlord's motivation can save you some agony. Is the owner planning to re-occupy your building at any time? Have expansion rights been given to other tenants that could affect your occupancy?

**Negotiate extensions in your lease.** One of the most common extension rights in a commercial lease is the option to renew. In difficult times, owners will grant an option at predetermined lease rates. When times are more robust, plan on an option with terms to be decided once you exercise your right. Regardless, this is your way of staying in your current location for an extended period of time without committing today – a beautiful thing for an occupant.

---

Allen Buchanan is a principal and commercial real estate broker at Lee & Associates, Orange.

He can be reached at 714-564-7104  
or [abuchanan@lee-associates.com](mailto:abuchanan@lee-associates.com).

His website is [allencbuchanan.com](http://allencbuchanan.com)



**ALLEN  
BUCHANAN**  
CONTRIBUTING  
COLUMNIST