

Subleasing can be painful

While the economy and commercial real estate market is getting better, if you are trying to sublease space, don't even think about trying to obtain better terms on your sublease space.

The good news for you is there are becoming progressively fewer other sublease spaces to compete against.

Most commercial real estate brokers will advise a potential tenant wanting to sublease their space (the sublessor) that their space will trade in the 50 cents on the dollar range. Yes, half off!

Subleasing in a soft markets is painful for the sublessor. Let's not kid anyone, the only reason a tenant subleases their space is because they're bleeding. They don't need the extra space, don't think they will ever need the space and they need the money that they are paying for the excess space.

If you are a sublessor, don't think subleasing your space will stop the bleeding, it only slows it down.

And don't kid yourself about the tenants that will be your prospects or hopefully your subtenant(s). They are not going to be a high credit major corporation. Most high credit tenants, have good representation that will only use your sublease as "additional" discount to do a direct deal with the landlord.

Most sublease tenants are usually earlier stage companies or companies struggling in some manner or another, looking for an exceptionally good financial deal with extra benefits that they cannot get doing a direct deal with a landlord. There are some exceptions, but not very many.

Sublessor needs to make the deal

The idea for this subject came as the result of a current assignment. We are representing a high-growth health care company with tremendous potential. The management team of this sublease tenant built a similar company and very successfully sold it a few years ago. The same team is doing it again; rebuilding a new but similar company. Part of their strategy is to consolidate and relocate offices from around the country to north Atlanta. Our client needs just over 20,000 square feet. As they relocate and hire new employees they will need more space. There are not many 20,000 square feet sublease

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tenants and even fewer that are growing.

You would expect a sublessor bleeding at plus or minus \$20,000 a month would understand that they have to do

what it takes to make a sublease deal of this size. Don't be so sure, it is not always the case.

After making an aggressive proposal and reaching a meeting of the minds with the prospective subtenant, the sublessor's CFO now wants to renegotiate the deal because of concern regarding the subtenants credit. The sublessor's CFO is willing to do the deal, he just want a huge security deposit and wants to delay paying the commission.

What he is not paying attention to is there are five other spaces in the area that, to get back in the race, will not require the increased security deposit and will pay the commission on time. When subleasing space, "a bird in the hand is worth way more than two." The sublessor agent tells us they have "only shown the space three times in the past year."

If you are subleasing space and have a subtenant in hand, don't all of a sudden become "master negotiator." Make the deal. It may be months before another opportunity comes along. Companies that need exceptionally good financial deals that can't get the extra benefits they need doing a direct deal with a landlord do subleases. Traditional tenants with good credit and other reasonable needs don't do subleases. Make the deal!

If you are a sublease prospect, happy hunting. You are going to get a great deal. If you are a sublessor, make any deal that helps stop the bleeding.

As always, if we can help you in any way please call on us at 770-297-8000 or e mail me at rlackey@citycre.com.