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COMMERCIAL REAL ESTATE

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How Long Should An Office Lease Be?

This is a very basic question asked by landlords and tenants alike, but there is no correct answer since tenants and landlords have different goals and objectives for their office leases. The right lease is one where both parties can share many of the same objectives.

Today most landlords are resistant to doing office leases that are less than 3 years in length due to the limited ability to recover lease transaction costs (tenant Improvements and leasing commissions) when up against current market forces. Small emerging tenants, however, tend to have heartburn over doing leases for longer than 2 years since they don't know if or when they will outgrow the space. Growing tenants locked into a longer lease term may end up having to sublease in order to ride out one lease term while committing to another for larger space. We make sure my clients' office leases contain reasonable subletting provisions, and as long as a Tenant has a decent lease term remaining (at least two years), they can reasonably expect to come close to breaking even on a sublease in this current market.

Conversely, we recently completed a lease transaction on behalf of a non-profit client where the Landlord had limited the length of the lease because the financial lease terms heavily favored the tenant. This strategy enables the landlord to renegotiate the lease sooner (getting the Tenant in) with the hopes of achieving better returns in the future. Additionally, some landlords will vary the lease terms to coincide with the lease termination or expiration dates of adjacent expanding tenants.

Tenants and landlords need each other to make the office lease work, but really how long should that office lease be? The answer is not a simple one, but a good broker will help guide both the tenant and landlord to a mutually agreeable solution.



***TED SCHWARTZ** is a 25 year Atlanta resident with more than 20 years of experience in corporate office tenant representation focusing the Georgia 400 office corridor. Ted recognizes that successful commercial office negotiations require a deep understanding of the client's current needs as well as the ability to anticipate future growth, identifying and securing a location per client's business model.*

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