

Major lease transactions – the top 10 mistakes

About to enter into a lease negotiation? Rodney Timm gives some timely advice on avoiding the pitfalls.



Everyone loves a nice big office lease transaction. Landlords and developers with vacancies in their trophy buildings get excited about the prospects of a new tenant. Agents and tenant representatives start short-listing the Porsche or sports car they will buy with their commissions and payments. Architects and fit-out specialists churn their creative juices visualising the incarnation of “best of breed” workplace solutions. And the CEOs, CFOs and CRE executives have a chance to indulge themselves in their own importance and egos as they get wooed with lunches, sporting events and other marketing gimmicks thrown at them by the real estate community.

However in this feeding frenzy of conflicting objectives, mistakes are made. These mistakes tend to be repetitive in nature but somehow, even though we claim to be the superior living being, we tend not to learn by our own, and others’ mistakes.

So what are the top 10 mistakes that are persistently made by companies in the new lease negotiations?

1. Focussing on the transaction and not the strategy

Lease negotiations are usually precipitated by an event, be it a lease expiry, a merger, or unsolicited approach to move to a new development. And in the excitement of the transaction, the corporate strategy often gets ignored. The negotiation focuses on the key financial terms of the lease, as these are the trophy benchmarks of the deal junkies.

Too often, the impact of the transaction on the portfolio strategy gets forgotten. Critical terms of the lease impacting the future,

such as rent review terms, expansion and contraction rights, make-good obligations – the keys to future corporate flexibility and portfolio performance – seem to get a very low priority until they bite in the future.

2. Underestimating the time that the entire process will require

Companies that do not have a good grasp of the critical dates in their lease regularly get caught out by not having sufficient time to fully engage with the market in seeking alternative premises. This is particularly true if a preferred alternative has to go through the development process – a long and tortuous process seldom understood by those not involved in the real estate market. This lack of remaining lease time often results in staying in existing premises and negotiating a soft lease renewal with the existing landlord.

Elapsed time in a successful relocation transaction must include the needs analysis, negotiations, executive approval, legal documentation, planning, fit-out, relocation, and even to undertake make-good obligations. This must all occur within the remaining period of the lease or the landlord will be demanding compensation as per the lease terms.

3. Not having clear business needs analysis and accommodation brief

Zero-based budgeting is a well-accepted business principle to ensure past excesses are not factored into future plans. However market briefs are often based on existing space metrics, increased by some factor to allow for future growth, quite often based on sq m per person. Alternative officeing techniques,

form following function philosophies and distributed workplace practices are ignored. Needs analysis and accommodation briefs should also identify adjacencies, location alternatives and flexibility objectives. Ideally these briefs need to be undertaken by independent workplace experts not associated with designers. This way the design solution does not end up driving the workplace outcome to the detriment of the portfolio strategy.

4. Not integrating the other corporate support activities into the relocation process

A company relocation is not just about real estate. Relocations ignoring HR, IT and other corporate support functions will be to the future detriment of the company. This is particularly true with IT, HR and RE becoming substitutes in corporate process strategies. Even though no part of a company can be ignored, it is essential that HR and IT are engaged in the process from the beginning.

5. Failing to have clear, robust relocation objectives and evaluation criteria agreed prior to the commencement of the process

If relocation objectives and weighted evaluation criteria are not determined up-front and linked to portfolio strategy, they can

easily be manipulated to support a specific outcome – maybe the CEO’s personal preference. Usually government agencies are good at setting evaluation plans up front, although quite often these evaluation criteria and weightings are not well thought out, are not pilot-tested and do not link back to objectives and result in some surprising outcomes. The private sector seldom seems to develop robust evaluation plans up-front.

6. Not appointing a project sponsor with a clear mandate and authority to act

A lease negotiation and relocation is a major undertaking for any company. The workplace is the key to conducting business and no glitches can be tolerated. So who is driving the process in the company and what other responsibilities does that person have? How are decisions made and who is accountable for the accommodation outcome? Can quick critical decisions be made? Does the designated project sponsor have the necessary skills and experience – it is usually a long time between deals?

The CEO should be careful about assuming this mantle – too often a significant high profile relocation led by the company CEO is the first sign of the demise of the company.

7. Ignoring the change management implications, both good and bad

Any major relocation will mean significant change for the workers, particularly if new, alternative workplace practices are implemented. The relocation must be positive and must be managed. Change management does not happen without planning. Remember, the move is all about accommodating the workers – the company’s greatest assets. Make sure it is a positive experience.

Relocations are great mechanisms to enable significant corporate change and may only be available again at the end of a long lease. So do not miss the chance to use the move to drive the corporate culture. The need to drive change may even be the catalyst for a relocation despite an existing lease commitment.

8. Being guided by “free” expert advice provided by real estate broking community.

In business, as in life, there is no such thing as a free lunch. Taking “free” advice usually means that the company will pay in kind by sub-optimal decision-making. Remember even the most professional agent or broker cannot help but be subjective in his advice when his main focus is to drive the deal to

get paid – on a no deal, no dinner basis.

Also beware “free” tenant representatives who arrange to get their fee from the landlord. The relocating company will still pay the fee wrapped up in the deal.


9. Not appointing independent, objective, professional consultants to undertake the required due diligence and provide other specialist advice

Companies without internal real estate resources need to recognise the need and value of specialist independent advice. Even though this will cost money, ultimately this is cheap at the price if major mistakes are avoided. With relocation decisions being made on an irregular basis, corporate knowledge is usually lost during the interim period.

Advice may include engineering and due diligence; valuation; change management; design and project management; removal and relocation logistics; IT and systems; legal; negotiating; and other specialist advice. It is critical for companies to realise the complexity of major real estate decisions and the range of skills required to support these decisions. But companies must also be mindful of the inherent conflicts of interest that exist within the real estate market.

10. Letting costs be the key driver to the detriment of all other key accommodation objectives

Cost is always important and can never be ignored. But too often all other objectives that specifically add far more to corporate value get ignored. For example, taking the cheapest premises may not support the human resource objective of attracting the best available emerging talent. Similarly, taking the cheapest premises may not promote the marketing message of the company, to its detriment – as many inexperienced retailers have found out too late.

Cost comparisons are also often poorly calculated, not covering the total cost of occupancy over the life-cycle of the lease. The true measure of cost in relocation decisions should be the full cost to the business including salaries, travel, write-offs, depreciation, relocation expenses and the like. These costs need to be analysed based on cash flow, P&L and balance sheet impacts over the full life of the intended occupancy. 

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