

So you want out of your commercial lease – now what?

Your company was just bought, and the operation will be rolled into another location. Check! You've outstripped the capacity of your location, but you have time remaining on an existing lease. Check!

You've decided to shutter the operation and outsource the manufacturing to China, but your lease expires a year from now. Check! Or you decide to take advantage of historically low interest rates and buy a commercial real estate location. But there is that landlord who wants to receive his rent for the next two years. Check!

All of these scenarios require a lease termination. So how do you accomplish this? This column is designed to give you some helpful suggestions to extract yourself from a lease obligation.

OK, let's find a solution for that unwanted lease. Ask yourself these questions:

How much time remains on your lease? If the term remaining is fewer than two

years, be prepared for your owner to use the remaining term as a "free" marketing time. The owner has the luxury of rent payments while searching for a replacement tenant or buyer.



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What type of entity owns your location? A private individual may be a bit more flexible than an institutional owner.

Where is your rental rate in relation to the current market? If your rate is above market, plan on subsidizing payments on the remaining term – if a replacement tenant can be found. If your rate is below market, your remaining term could provide a good alternative for a fast growing company.

How does your lease treat assignment or subleasing? Most commercial leases allow for subleasing or assignment. Rarely is there a removal of your obligation, however. That means that if you sublease or assign the remaining term, you still could be

liable for rent if the subtenant defaults.

If you're moving to a bigger location, what is the rent amount monthly? One month of rent in the old location could be a fraction of the monthly rent in the new location. IE: Old location rent is \$5,000 per month. New location rent is \$15,000 per month. There are nine months of term remaining in the old location or \$45,000. If you negotiate three months of rent abatement in the new location, you avoid a double payment.

How long would your building take to lease? Any competent commercial real estate broker can answer this for you.

Can some portion of the operation stay in the location through the term? I just sold a building to a company with 15 months remaining on a lease. Rather than try to sublease the space or negotiate a buyout, the client opened a related operation in the space.

Are any of your neighbors crowded and in need of space? A fast-growing neighbor can consume your space quickly.

Once these answers are clearly understood, you have some options:

Negotiate a buyout: I generally suggest an occupant call his owner and discuss the reason that the space no longer is needed. I suggest the occupant ask the owner if he would consider a buyout.

Sublease or assign the space: If more than two years remains on your lease, unless you are dramatically below market, most owners will not consider a buyout of the remaining obligation. You then must find a replacement tenant to live out the remainder of your lease term.

Cease payment: I have never recommended this, but it is an alternative.

Live out the term: In the example above, my client loved the old location, so he created a business operation to house the space and live out the remaining term.

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