

RECON

Conditions may be right for sublease opportunities



By Brad Vear

Subleasing has become an important business strategy for companies, whether they are expanding or downsizing. It is a strategy that is best implemented when the direct supply of available space or

vacancy is low, like the current conditions throughout most of southern New Hampshire. That's because sublease space is typically less attractive to prospective users than direct space, given comparable rental rates. After all, space is a commodity subject to supply and demand like any other commodity.

Often sublease rates can be more attractive than direct rates in the same or similar buildings. Rental rates for office and industrial space have gradually increased over the past several years, and companies that currently find themselves with too much space on leases that started a couple of years ago are in an advantageous position to offer their lower rates as incentive

to sublease a portion or all of their existing space.

The downside to prospective subtenants may be that they have to live with a shorter term than they want or with fewer tenant improvements than they need.

Growing companies that need more space may decide to try and sublease their existing space if they choose to relocate. Sometimes they look at the alternative of staying in the existing space and leasing a second location to accommodate the growth – not the most efficient solution. Sometimes a company will intentionally lease more space than they initially need with the intent to sublease out a portion of it that can later be used to satisfy their future growth needs.

Vear Commercial Properties Inc. recently represented a company that was ramping up significantly and had outgrown its existing 8,000-square-foot office with three-plus years remaining on the lease. Given the location of the exist-

ing office space along the Nashua Route 101A corridor with low vacancy, we suggested that they try to sublease their space and relocate their entire operation into one facility. In searching for larger office space to meet their needs, we ended up negotiating to sublease 30,000 square feet in Bedford from another company that

was doing the same thing – outgrowing its space and relocating to Manchester. We successfully subleased the 8,000-square-foot office a couple of months after the firm vacated, and the client

was able to meet its growth needs in Bedford while enjoying a below-market rental rate.

If subleasing is such a useful tool, why don't we see more of it? First, I think that a lot of it depends on the business cycle. If the vacancy level is high, then the sublease market will suffer and the prospective sublessor may be stuck with the space longer than planned. Second, it may be seen as too much hassle. There are sublease documents to generate, marketing

costs and negotiations with prospective subtenants. It may prove less costly or simply less of a hassle to approach the landlord and try to buy out the remainder of the lease at a discount. Third, subleasing is sometimes not allowed in the lease. Landlords are reluctant to approve a sublease if the subtenant is less creditworthy than the original tenant or if it may cause more wear and tear to their property. Many leases do allow for subleasing the premises after first obtaining the landlord's approval, with the elusive clause "not to be unreasonably withheld" usually inserted.

Given the current stable real estate market and the somewhat unstable business climate, I believe that we will be seeing more sublease space enter the market. It can offer opportunities to companies on both sides of the lease. ■

Brad Vear is principal of Vear Commercial Properties Inc. He is a certified commercial investment member (CCIM) and a member of the Society of Industrial and Office Realtors (SIOR), one of only two professionals in New Hampshire who has earned both of these professional international designations. He can be reached at btv@TeamVear.com.

Subleasing can offer benefits to both sides in a transaction