Common Lease Disposition Strategies

While some companies prepare for the return to office, others are opting to incorporate remote work into their long-term workplace strategies. For these occupiers, it will be important to reevaluate your space utilization and – if it proves cost-effective – shed what you no longer need. Though each situation is unique, we have outlined several common lease disposition strategies below. Please contact a Cresa advisor to explore your options.

1. Sublease Your Space

A sublease entails leasing a portion or the entirety of your space to another tenant. The subtenant pays rent to you, effectively covering expenses for the unused space while also allowing you to honor the initial lease terms with the landlord.

Your advisor will:

- Consider what's prompting the reduction in space and help you define the business objective for the sublease.
- Review your current lease terms and sublease provisions so you understand all your options.
- Evaluate the market and comparable properties to inform a cost recovery and Go-to-Market strategy.
- Work with you to determine a proposed financial structure that is appropriate and competitive.
- Assess your space and position it appropriately (e.g. a "plug and play" solution offers prospective tenants a seamless transition).
- Manage the parties required to make your space showroom ready (the project manager and various vendors, for example).
- Develop and launch a marketing campaign to generate awareness of your space in the market.
- Analyze proposals and outline the merits and challenges of each option before offering a recommendation.
- Verify the financial solvency of potential subtenants.
- Execute the sublease and oversee any work required.
- Remember: Cresa never does business on behalf of landlords. Everything we do is to your advantage.

2. The Lease Buyout

A buyout refers to the cost you will pay if you choose to terminate the lease. This is the financial benchmark you should measure all other sublease options against.

Considerations:

- If you sublease, you become a landlord which is not your core business. For this reason, a buyout – if possible – can be the best solution.
- The buyout needs to be based on Net Present Value (NPV).
- A buyout often makes the most sense for those with less than 2 years remaining on their lease.
- If you are a large, high credit company, the landlord may be reluctant to agree to a buyout because it's better to keep you on their rent roll to support the landlord's own financial solvency.
- Many larger landlords are not tempted by a buyout. Though a buyout offers an influx of cash, their financial goal is to limit vacancies and showcase stable occupancy levels in the building.
- Buyouts can be successful when the landlord has another potential tenant for your space.

3. Blend & Extend

If you have 2 years or less remaining on your lease, you may consider an early renewal in the same – if not less – space. This is an effective strategy for reducing expenses in exchange for a longer term and is especially relevant if the location is a strategic asset for the organization. It also offers minimal impact to your P&L.