



Four Steps for Reining in Rent

Next to salaries, real estate can be one of the largest expenses a law firm faces—anywhere from 6.5 percent to more than 10 percent of annual revenue.

Using the high end of the spectrum, a \$4 million firm spending 10 percent of its annual revenue on office space is doling out a whopping \$400,000 a year in rent or mortgage payments. Trimming those expenses by a mere 1 percent can tack an additional \$4,000 onto the bottom line.

The good news is that rent is not a fixed obligation. You *can* save money. Here's how:

1. Restructure Your Lease

Market conditions change, and many firms are locked into leases that were made during earlier real estate boom times. So don't be hesitant to ask for a lower rent. Your landlord knows that it's cheaper to keep an existing tenant than it is to get a new one. Landlords generally would rather see a reduction in rent than an interruption of their cash flow.

- **Check rates**—Start by checking rates in the area. If your current rent is on the high side, make the case that you cannot remain competitive if your rent is higher than that of other area law firms. Likewise, remind the landlord that he or she will not have to pay new tenant improvement costs that could be incurred should you leave.
- **Consider an extension**—An alternative strategy is to ask for an extension of your lease term at the current rate. Since all rents eventually go up, you can effectively lower your average annual lease cost by extending your lease term at the existing rental rate.

2. Audit Your Lease

In most office leases, the tenant pays a fixed base rate plus an additional amount, usually called an "escalation" or "pass-through." These extra charges are based on a pro-rata share of the building expenses each year of the lease.

Most tenants pay (without question) the operating expenses statement and pass-throughs that the landlord submits. On the flip side, landlords seldom review each tenant's lease (e.g., how one tenant's lease differs from others, or which exclusions from operating expenses one tenant may have negotiated). As you can imagine, overcharges can result. In fact, experts estimate that these excessive charges can equal \$1 to \$3 per square foot per year or more.

- **Examine your charges**—A lease audit is an effective way to examine questionable pass-through charges and either try to reduce them or use them as lease-bargaining leverage.
- **Bring in the experts**—You'll need to bring in experts who can conduct the audit and provide additional information, such as recent comparable transactions and general market trends. Smaller tenants of the same landlord can join together to split the costs of a lease audit.

3. Use Competition as Leverage

If you're nearing the end of an existing lease, invite competition among other landlords in the area. Your current landlord will soon learn that you're in the market for a new location and will likely want to discuss your tenancy. Landlords will do almost anything reasonable to prevent losing a good tenant and the resulting cash flow.

4. Standardize Your Office Space

Your lease isn't the only place to save money. In the name of cost containment, some law firms have taken on a truly sacred cow—the corner office—and allocated standard-size offices to associates and partners alike. As a result, the firms spend less on customized furniture and reduce the amount of time and money spent on changing offices.

Some firms have even adopted a “hotel” concept, in which permanent offices are not assigned to associates. Associates simply roll two-drawer file cabinets with necessary files into standardized workstations.

Gain the Upper Hand

In the end, auditing the operating expenses of a building and using competition as leverage may provide enough information to give you a distinct advantage in negotiating new terms—including lower rent—and conditions for the balance of your lease term.

An experienced accountant can review your firm's real estate costs, both as a percentage of total revenue and as measured by square foot per lawyer. Please contact our office today for further information.