

Bartering through a downturn, foot by foot

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Faced with mounting budget pressures? At least one national real estate expert is advising businesses to think twice before laying off staff – Stan Krawitz, president and founder of Toronto's Real Facilities Inc., tells *OBJ* a shrewd look at physical occupancy costs, which for most businesses are the second-largest expense following payroll, may help avoid painful staff reductions.

And though he agrees Ottawa is fairly insulated from the economic downturn, he says the city will eventually feel a pinch – so, along with bartering with landlords to reduce rates for lease extensions, Mr. Krawitz offers up his top five tips in re-examining and restructuring your physical space expenses.

1. Apply an organization-wide approach to reducing costs, including looking at real estate, human resources, production processes and all other major cost centres.

2. Conduct a location assessment to determine the value and strategic importance of each physical location in the organization. That especially applies to "marginal" retail outlets within a chain, he says, which may have been profitable but aren't in a



Toronto-based Real Facilities Inc.'s Stan Krawitz says companies should look at decreasing physical occupancy costs before laying off staff.

downturn. "Sometimes in boom times, what makes sense from a locational point of view no longer makes sense in recessionary times," he adds.

3. If your company has multiple leased properties in different locations, leverage the strength of your portfolio to negotiate with your landlord or landlords to cut space and increase the length of your lease term(s). "If you have a hundred locations, you can bet that 10 of them will be with an

Oxford, a Brookfield or a Bentall," he says.

"And in those situations, it becomes a little easier to go back to a landlord and say: 'I've got 11 locations with you, and eight of them really work and three don't.

"For the eight that work, we'll work something out with you, but we want to give back the other three locations."

4. Undertake a space utilization study to make sure you see

maximum efficiencies across the organization. Mr. Krawitz says subletting extra space isn't necessarily the best option, as most sublet deals involve at least a 20-per-cent markdown from typical market cost. "I think this is the most subtle and underused of our strategies," he says. "We've been able to free up, by replanning and better utilizing furniture, 15 to 20 per cent of a company's existing space.

"If you've got 50,000 feet during the boom, and you've laid off 10 per cent of your people, and then you find another 10 per cent in workspace efficiency – you suddenly have a 20-per-cent savings."

5. Do a lease audit to uncover any hidden costs your organization may be bearing, and be prepared to renegotiate the terms of your lease with your landlord. "Very often, tenants don't scrutinize these costs in boom times because they're too busy making money," he says.

"But anybody looking to recession-proof their business ought to have their lease audited, and when I say that I mean an audit of their operating costs.

Mr. Krawitz adds tenants may be wise to wait six to eight months

before renegotiating leases, considering the downward pressures of the economy still likely haven't been fully felt by large landlords in both Ottawa and Toronto. "But I feel that both cities are going to go through the same downward spiral on office rents, and the reason is that more and more sublets are going to come to market," he says.

It will be the sublet market's relatively low rental rates that will drive landlords to reduce their asking prices, he says. "And I do believe there has been a lag in what's going on in the general economy, and oligarchic landlords standing firm on rental rates in the short term," continues Mr. Krawitz. "These downward pressures haven't been completely priced into office leasing rents. My prediction is that by the middle of next year, landlords will adjust their rents downwards."

As for the differences between Toronto and Ottawa? "In (Toronto's) downtown core we're a little further down the development cycle than Ottawa," he says. "There certainly isn't any sign on the horizon that the (federal government) will be giving back space, so in that regard Ottawa may be slightly more insulated than Toronto.