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Location, Location and More Location

With vacancy rates up and rents down, it's a great time to grab extra space if you need it

By RAYMUND FLANDEZ

For some small-business owners, the terrible economy holds an unexpected silver lining: It's a lot easier to get more space.

As hosts of businesses close their doors, vacancy rates are soaring and rents are plummeting. So, small companies that are still on their feet—and looking to expand—suddenly have lots of leverage with landlords. And they're making the most of the chance, snaring prime locations and larger spaces, often at a fraction of the regular asking price.

Crisis and Opportunity

In early December, for instance, Sindi Major-Martinez, president and chief executive of Sindel Technologies LLC, moved her IT-services firm to a new location in Phoenix. At the new building, she's paying $21 a square foot for 4,400 square feet—versus $23 per square foot for 3,000 square feet in her previous lease. It's an even better deal considering that the new location was valued at $29.50 a square foot recently, and the current rent also covers utilities and cleaners.

"It really emphasizes that there are good things out there, even though things are really bad," says Ms. Major-Martinez, who estimates she'll save about $60,000 in the first year.

For an idea of the kinds of potential deals out there, consider this: Commercial rents were down 36% in October from a year earlier and were 44% below the peak in October 2007, according to Moody's Investors Service Inc. In addition, the national office market's vacancy rate is expected to rise as high as 19% by the end of 2010, the highest on record since Grubb & Ellis Co. began tracking the national market in 1986.

"The one thing that happens in this economy is that the weak players get pushed out," says Bruce Olans, chief executive of Store in a Box Inc., a Rochester, N.H., company owned by BrandPartners Group Inc. that assists small businesses and franchisees with the build-out process, including lease negotiation. "It's kind of survival of the fittest. A lot of the ones that were hanging on for years are basically going out of business. It's opening up new opportunities."

Richard Pawlowski, managing director for Capital Q Restaurants LLC of Wheaton, Md., and New Providence, N.J., has opened nine Qdoba Mexican Grill restaurants in the Washington, D.C.-Maryland region in the past few years. While he has seen rents stay about the same in the area, he says the competition for prime spaces, such as street corners, is down.

"We have been able to get two locations that wouldn't otherwise have been in the mix 12 to 18 months ago," Mr. Pawlowski says.

Some entrepreneurs say they've leaned heavily on brokers to find the best deals. Take David Schnurman, president of Lawline.com CLE Inc., an online provider of continuing legal education, who needed more space for his growing work force.

When hunting for a new location last year, he put out queries on an entrepreneurs' mailing list—which netted a number of leads—and saw more than 50 spaces with six different brokers. Working with different agents was crucial, he says, because some had listings that the others didn't.

In the end, he says, he found the deal he wanted with the final broker. The three-year lease he snared carries the same rent as his old location—about $9,000 a month—but it offers four times the space. "It seems to be that there are more deals in the market than ever," Mr. Schnurman says. "For any company that's growing, this is a time to be a bit more aggressive."

A Critical Eye

Other entrepreneurs say they've landed spaces through old-fashioned legwork. In November, Nick Rizzi launched a tax-preparation franchise, Smart Tax Franchise Group LLC, in Brooklyn. He worked closely with real-estate brokers to line up spaces for his eight locations in the New York area, but also did lots of hunting and follow-up on his own.

For instance, he found a few of his Smart Tax locations by riding his bike around an area that interested him, or taking a stroll with his wife to explore the neighborhood and scope out "For Sale" signs. Once he zeroed in on a location and retail space he liked, he would sit in front of the space or nearby with a cup of coffee and observe the foot traffic, as well as assess the popularity of the stores or restaurants next door. Another crucial step: talking with neighboring business owners about the area and the prospective space.

The results? He's been able to get a 20% to 30% cut in rent on his locations from the original asking price, and he's able to get stores with a larger footprint than he could a couple of years ago, at 1,400 to 1,500 square feet, with the same price he would have paid then.

"You're bargaining in a position of a little more power," he says, adding that he often lets it be known that there are other locations on the block that he could bring up.

Still, don't expect every landlord to respond to pressure. Laura Cirillo opened the Blue Turtle gift shop in Stuart, Fla., in November 2008, with a one-year lease, with the option to renew for three years. The business was successful, but she had signed at a top-dollar rent of $2,900 per month.

During the recession, she saw other landlords on the same strip mall giving rent relief to their tenants. So, she wrote her landlord and asked to renegotiate her lease early. If he gave her a break on rent, she said, she would sign a three-year contract five months before the current one ended. The landlord came back with a "definite 'no' and an intimation I was lucky I was locked in," she says. Her response: "He's not watching the news enough. I knew that he was so off base."

The next day, she signed with another landlord for a space in the same strip that offered a desirable location and a much-reduced price tag. Nine months later, the original location sits empty.

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