

Subleasing – Risk and Opportunity

Throughout Ontario the recession has put increased pressure on business profitability – many operations are downsizing, repositioning or simply disappearing. The Ontario leasing market is more fluid than it has been. Ottawa core vacancy rates remain relatively lower than the market but vacancy rates are significantly higher in the Ottawa business suburbs.

Subleasing can be rewarding for all concerned. In many cases, the tenant will either buy out his or her lease or engage a subtenant who may wish to negotiate a longer term. This puts the landlord in a competitive position to attract a new tenant. The original tenant is saved the cost of paying the lease for the whole term and the new tenant gets space at a discount – often with the option of an extended term.

Metro Suburban has been assisting its clients – both owners and tenants – to make the best of the market. Whether you are an owner or a tenant, subleasing offers some interesting options. This issue of Working Spaces shows how.

Five Differences Between Leases and Subleases

Remember – each lease and sublease is different. It is worth your while to engage both an experienced broker and legal counsel to ensure that the sublease protects your interests, now and in the future.

1. It is not possible to have a sublease without a head lease. If the head lease lapses (for example, because the tenant defaulted) the sublease ceases to exist.
2. The sublease is not simply a copy of the head lease. It may set out a different rental rate and business terms.

3. In a standard lease, the tenant is liable to the landlord for defaults and damages. In a sublease, the subtenant is responsible to the sublandlord AND the sublandlord is responsible for all subtenant defaults and damages.
4. Sublease rates tend to be lower than the rates charged directly by the head landlord.
5. Subleases do not permit the subtenant to extend the term of the lease or to revise the items of the head lease unless the head landlord agrees.

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YOUR BEST INTEREST

Sale-Leaseback – Is it right for you?

The sale-leaseback arrangement can prove beneficial to both the seller and buyer of a property. The seller liquidates his/her equity in the land and building to use for other purposes, while retaining the location under a long-term lease arrangement. The buyer, as an investor, is assured of a long-term cash flow, and the seller may have an option to repurchase the property following the lease.

This is a great way to free up some of your capital. Under a sale-leaseback, you sell your building but stay in it as a long-term tenant. Metro Suburban has several investors who are interested in buying office or industrial buildings under this arrangement.

Give us a call to discuss deals that we have already done and find out how this concept can work for you.

LOOKING TO SELL?

If you wish to sell either the building you own and occupy or an investment property, we have buyers. Please contact us if you wish to discuss a free opinion of value. ■

Also in this issue

- Growing Pains – A Working Spaces Case Study
- It's a Matter of Trust

WELCOME TO Working Spaces

Metro Suburban is Ottawa and Eastern Ontario's leading independent commercial property brokerage. As commercial brokers, we put space to work and we only deal with space for work – matching buyers with sellers, tenants with owners, investors with investments.

The result of Metro Suburban's dedication to commercial property is that our clients and investors get the results they seek faster and easier. And because our whole team has no objective other than your complete satisfaction, you'll discover the process can be a lot more pleasant than you ever imagined. **Call us at 613-723-2222 to find out more.**



Diane McNulty

Ten Years with the Team

Since joining the Metro Suburban team in 1999, Diane McNulty has developed a broad skill set and knowledge related to commercial real estate. Diane does a wonderful job as Metro Suburban's first point of client contact. Her sense of humour and team spirit help all of us make light of daily challenges. Diane is now training to become a licensed real estate



sales representative to further her education in the industry. Thank you, Diane, for joining us 10 years ago. Happy anniversary from the team at Metro Suburban.

"Extremely happy with the service. You guys are the best. No need to improve. Thanks again for the great service."

Serge Mercier, Evolution Support Services

"Our companies have dealt with Derek Parker on every one of our commercial real estate deals dating back 20 years. His knowledge of the commercial real estate market in Ottawa and surrounding areas is remarkable, and many times I call him with questions about certain parcels. He always knows the answers."

Kirby Shantz, CRS Contractors Rental Supply Ottawa

BETTER INVESTING

Growing Pains

A Working Spaces Case Study

A large company whose principal business is the sale of industrial and agricultural products occupied a 23,000-sq.ft. showroom in the east end of Ottawa. It was the sole tenant in the building, which had been built to suit their needs in 2000.

Located on a corner with good visibility and vehicle access, the building had 88 parking spaces, full-height (20-foot) ceilings, shipping and receiving doors, and an open concept air-conditioned showroom with large display windows fronting a high traffic street.

The tenant initially signed a 20-year lease and the building facilitated the company's growth and reputation. Sales volume and customer traffic steadily increased until 2009 when growth necessitated moving into a nearby 43,000-sq.ft. facility.

The company's good fortune was soon tested as the existing building quickly turned from an operating asset into a financial

liability. The lease still had 11 years to run and the company had to pay rent and operating costs on both old and new buildings. The logical solution: secure a subtenant for the old property as soon as possible to stop its expense.

The first step was to contact Metro Suburban to execute a listing agreement. This enabled the company to outsource its real estate problem to a professional commercial broker. Our mandate was to advertise and promote the property to find a suitable subtenant to assume the lease obligations with all of its rights and responsibilities to the landlord for the remaining term.

Metro Suburban developed a marketing plan, identified and contacted prospects and conducted on-site showings. We brokered negotiations between the proposed subtenant, our client and its landlord, ending successfully when the three parties signed a legal agreement.

The outcome was win-win-win. The subtenant found an outstanding property at a fair price.

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Subleasing – If You're the Sublandlord

There are many reasons why you might want to reduce your rented space, and a slower economy is not the only one. Businesses are increasingly offering staff the option of working remotely for sustainability and quality of life reasons. Others opening offices in new locations may need less space at the central office. Conversely, consolidating offices may also open up space for subleasing. Whatever the rationale, subleasing offers both opportunities and risks.

Subleasing is a great option for recovering the cost of keeping empty space. It is likely that you will have to discount the lease rate to attract a tenant but losing 20 or 30% is better than losing 100% of the cost of keeping the space.

Here are some guidelines to protect your interests:

- 1. Crunch the numbers.** You know you may have to discount your lease rate but you must also calculate any brokers' commissions, legal fees, down time and build out costs to know your true losses.
- 2. Talk to your landlord before advertising.** Make sure your landlord is the first to know. If your space is a hard sell because of its size or term or your ability to pay the balance, consider asking your landlord to lease

HVAC SYSTEMS

5 QUESTIONS to ask about HVAC systems

Energy costs are a big part of building operating expenses. Whether buying or leasing, here are some points to consider.

- 1.** Can exhaust fans be switched off or down when not needed? (Save 30% with variable speed fans)
- 2.** Are windows well caulked with appropriate insulating blinds? (Thermal blinds can stop up to 80% of heat loss and 86% of heat gain)
- 3.** Is HVAC system maintained regularly? (Save up to 10% on energy)
- 4.** Is there a programmable thermostat? (Cuts costs by up to 30%)
- 5.** Is the system high-efficiency (SEER above 12 or EER above 11)? (Most efficient systems use up to 40% less energy than standard systems)

YOUR BEST INTEREST

It's a Matter of Trust

Deposit Protection

Metro Suburban participates in the RECO consumer deposit insurance program, which protects you in the event of fraud, insolvency or misappropriation of funds. The program provides coverage up to a maximum of \$100,000 per claim and a maximum of \$500,000 for all claims related to the occurrence. There is no deductible under this coverage. The premium for the insurance coverage is paid for by Metro Suburban.

New Identification Requirements

The federal Financial Transactions and Reports Analysis Centre (FINTRAC) now requires both real estate buyers and sellers to identify themselves. Realtors are required to confirm clients' identity with date of birth, occupation and a piece of government-issued photo ID. This information must be filed securely for five years. FINTRAC also requires realtors to record all funds received (for example, deposits) during the course of a real estate transaction. More info: http://orebweb2.oreb.ca/fintrac_consumer_brochure.pdf ■

The landlord was satisfied that its tenant had secured a suitably zoned subtenant and had the assurance that there would be no environmental degradation of the property. Both landlord and sublandlord were pleased that the new subtenant would reliably cover building expenses. ■

Subletting is an approach to eliminating or reducing your rental expense. The broker's role is to save you money, time and effort so you can restructure your company's space and operational needs. Whether you are growing, downsizing, closing or consolidating your corporate real estate, subletting is a proven way to fulfill your objectives.

SELLING WORKING SPACES

2370 Lancaster Road

Commercial Office/Industrial/Retail Building for Sale



FOR SALE



More than 34,000 vehicles pass daily by this property at the corner of Lancaster and St. Laurent Boulevard close to Hwy 417. Single-storey building (25,395 sq.ft.) plus a small service/garage building (2806 sq.ft.) with parking for 200 cars. Site plan approval for an additional 12,000 sq.ft. Local amenities and public transportation within walking distance.

Broker: **Joel Freedman**
613-723-2222 ext. 223

the space directly. Consider offering a lump sum lease buyout. Find out any conditions that the landlord may require of the subtenant. Make sure you get approval for any alterations to the space requested by the subtenant.

- Engage a broker.** Engage a broker with a good reputation and broad knowledge of the market and who has the time and resources to focus on your deal.
- Sweeten the pot.** Consider including furniture in the sublease or covering some of the extra charges such as parking fees.
- Sort out shared spaces and costs.** If you will be sharing amenities such as bathrooms and reception areas, work through how this will be managed and how much you will charge. How will you assign common expenses such as heating, air conditioning and electricity? Who will get signage and where?
- Check references for potential subtenants.** Remember that you will be liable for your subtenant's damages and liability. Make sure your subtenant is financially sound and responsible. You may want to ask for a security deposit and you should make sure that the sublease gives you recourse to recover damages and indemnifies you from liability.
- Be prepared.** If your subtenant fails to leave when the head lease expires, you may be charged holdover rent for the entire space – not just the subleased space. Make sure the subtenant's holdover liabilities are clearly established in the sublease.

Check our next newsletter for more tips for subtenants. ■

Gillian Burnside

Metro Suburban Realty Ltd. is pleased to announce that Gillian Burnside has joined our company. With a background in marketing management within Kanata's high-tech industry and experience as a property manager in office and industrial sectors, Gillian offers Metro Suburban a unique mix of real estate and marketing expertise. Gillian's experience in the Ottawa Real Estate market is grounded in 10 years' experience as a landlord/property manager for a family-owned suite of properties within the



region. Experiencing the landlord's perspective and working with tenants over the years enables her to see opportunities from many perspectives. You may contact Gillian at **613-723-2222, Ext. 229** or gburnside@metro-sub.com

Celebrating 20 Years in Business



Two decades ago, Joel Freedman and Rob Quinn founded a different sort of commercial real estate company – one dedicated to personal service, outstanding local knowledge and a true spirit of collaboration. That company is Metro Suburban. Twenty years of serving our clients in Ottawa-Carleton and Eastern Ontario has confirmed that we had it right. When partners, salespersons, clients and supporting professionals work in a collaborative environment, everyone wins. As a result, we have prospered and so have our clients.

Metro Suburban partners and staff have assisted our clients with sales and leasing of office industrial properties, investment sales, land sales, sales/lease-back and build-to-suit. We have shared our extensive database of properties, contacts and deals. We have negotiated on our clients' behalf from a position of knowledge, experience and objectivity.

Every member of the Metro Suburban staff is proud to have had the opportunity to work with and serve all of our clients over the years. Together we have seen economic peaks and valleys, the growing importance of sustainability and the forging of 11 cities into one. Throughout, we have built a network of trust, good will and mutual benefit.

As we mark our 20th anniversary milestone we would like to give our heart-felt gratitude to all our partners including dedicated staff, exceptional clients new and existing, suppliers and contacts for helping us reach this landmark and we look forward to many more years in the future.

THANK YOU FROM THE TEAM AT METRO SUBURBAN REALTY LTD. ■

METRO TRENDS

Going Up or Down?

High tech companies in Ottawa-Gatineau

Virtually unchanged between January 2008 and 2009 at 1850.

Local Employment Outlook – Third Quarter

Plan to hire	15%
Plan to lay off	8%
No change	77%
Not sure	0

Lease Rates at a Glance

Net lease rates for most industrial and suburban office space across Ottawa (excluding downtown).

Industrial Leases

West Ottawa

\$6.50 – \$9.75 per sq.ft. net per annum

East Ottawa

\$6.50 – \$9.75 per sq.ft. net per annum

Office Leases

West Ottawa

\$10.00 – \$20.00 per sq.ft. net per annum

East Ottawa

\$8.00 – \$18.00 per sq.ft. net per annum

Please help us keep our database accurate. Send changes of address or contact person to cferguson@metro-sub.com or call 723-2222, Ext. 221

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- Industrial and Office Leasing
- Land Acquisition and Sales
- Tenant Lease Consultations
- Relocation Mandates

	Rob Quinn Broker		Joel Freedman Broker
	Dave Lee Sales Representative		Derek Parker Broker
	John McMerty Sales Representative		Diane McNulty Administrator
	Gillian Burnside Sales Representative		Cathy Ferguson Office Manager Broker

EXCLUSIVELY COMMERCIAL REAL ESTATE



Working Spaces is the client service newsletter of Metro Suburban Realty.

Metro Suburban is a dedicated commercial real estate brokerage serving Ottawa and Eastern Ontario property investors, owners, managers, tenants and buyers. If you depend on working spaces to get your job done, contact Metro today.

613-723-2222 or metro@metro-sub.com

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