

HOW MUCH SPACE IS TOO MUCH?

Growing companies mull how many square feet to take

By **BERNADETTE STARZEE**

As Equity First USA's business has changed, so has its space needs. The Coram firm, which advises small businesses and individuals that are in financial distress, previously had about 1,400 square feet of office space. It went up to about 2,400 and recently came back down to 1,400.

"A few years ago, we had a growth boom, and our landlord gave us the opportunity to take additional space that was next to us," said CEO Rhonda Klch. "We were doing contract work at the time, but the contract ended and then I was in a lease for more space than I needed."

Many Long Island businesses can relate. Because they lack a crystal ball, company owners invariably find themselves with too little or too much space as their business fluctuates.

Klch was able to sublease the extra space to alliance partners that worked closely with her firm, but after they moved on, she decided to find new space that was more suitable for the way her company is now.

"In the past, for the majority of our work, we didn't consult face to face with clients," she said. "But there's been a shift in my business and now more clients come to the offices. The building I was in didn't have an elevator, and the parking wasn't very good, so I found a more accommodating space."

Rather than be put in the position of having too much space again, she took only the space she needs now, figuring if she needs to make additional hires, they can telecommute.

"With technology, we can monitor the work employees do remotely," she said.

Deciding how much space to lease or buy is one of the biggest challenges for companies as they move through their lifecycle.

"I advise companies to look at where they want to be one to two years from when they sign the lease in terms of number of people," said Dana Moskowitz, president of EVO Real Estate Group in Manhattan. "On one hand, taking more space than they need increases overhead and may not translate to increased revenue while they are still filling the space. However, not taking enough space could be a hindrance to hiring new talent."

When companies are unsure of their future space needs, "I try to put them with a landlord that has a lot of space so there will be more opportunities to move within the landlord's portfolio," said Gary Joel Schacker, a principal of Jericho-based real estate brokerage United Realty. "It's a lot easier to get out of a lease if you're moving within the portfolio; landlords are inclined to hold onto tenants."

Tenants who are unsure of their future plans often seek a shorter-term lease, but landlords typically demand at least five years, especially if there is a build-out involved.

"They need time to amortize the costs [of the renovations]," Schacker said.

While subleasing part of the space may be an option for some tenants who bit off more than they could chew, it can be rife with problems, Schacker said.

"They're competing for tenants with the landlord, who may have other space in the building available," he said. "And most tenants can't just go into another tenant's space – the space will probably have to be modified."

Wayne Edwards, a partner at Uniondale law firm Sahn Ward Coschignano, said growing companies can identify space on either side of their offices and negotiate in their lease the right of first offer or first refusal should that space become available. Landlords often include in leases that they have the right to relocate existing tenants at the landlord's cost, he said, noting the landlord may move an adjacent tenant to accommodate a growing company.

When Campolo, Middleton & McCormick leased 9,000 square feet in Ronkonkoma in 2013 – triple its previous space – it negotiated a right of first offer on any space in the building that became available. Though Managing Partner Joe Campolo did not expect to need additional space so quickly, the firm recently exercised its option and is expanding into available space on the floor below, with plans to install an internal staircase and take occupancy by October.

Campolo is a bit apprehensive about taking on more space but believes it's the best option for his expanding law firm, which also opened an office in

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Bridgehampton last year.

"You can't grow in our business unless you have people," he said. "You have to bet on success but have contingency plans."

The contingency is a right to sublease space should a contraction occur. For those with similar backup plans, Campolo recommends keeping the build-out simple, with traditional offices and workstations; if the space is customized too much, it will be difficult to find appropriate subtenants, he said.

All-Ways Elevator won't have to worry about getting a landlord's permission if it needs to sublease space. The company recently purchased a 20,000-square-foot building in Hauppauge and expects to take occupancy in July, vacating its crowded 3,700-square-foot Bohemia digs. The 10-year-old company, which installs,

'I ADVISE COMPANIES TO LOOK AT WHERE THEY WANT TO BE ONE TO TWO YEARS FROM WHEN THEY SIGN THE LEASE.'

maintains and modernizes elevators, will greatly expand its office and storage space and create a dedicated showroom.

The expansion was long overdue.

"We had to rent two storage units, and we had manufacturers hold product as long as possible before delivering it," said Vice President Nick Dalvano.

Though the firm could have fit comfortably in considerably less than 20,000 square feet, "we want room for growth," Dalvano said. "We're planning for the next 10 years."

Long Island Temps has also seen its space needs fluctuate in recent years. Following a growth spurt, the 20-year-old professional employer organization contracted during the recession and now finds itself on the upswing again. Two months ago, Long Island Temps expanded from 1,800 square feet in Garden City to 2,900 in Westbury – about the amount of the space it occupied prior to the downturn.

The company waited for its five-year lease to expire before moving – "We were operating on top of each other for a while," said CEO Robert Graber – and took on more space than it currently needs.

"We just hired four new people, and even with them, there's still a little room for growth," Graber said, noting he is optimistic his company will continue to grow with the economy. "Our clients are expanding and requiring more staff; they were the catalyst for our expansion."

Lorraine Gregory Communications, a full-service marketing firm, is also bursting at the seams. In addition to its headquarters in a 20,000-square-foot building in Farmingdale – which is part office space, part printing/mailling factory – the firm has two small storage facilities. It is

looking to double its space and consolidate everything into one building, but as it looks for long-term space, it is considering taking emergency space on a temporary basis.

"People are doubled and tripled up in offices," said President and CEO Greg Demetriou, noting the lack of sufficient space is making it difficult for the firm to operate efficiently. Lorraine Gregory is seeking "high-end industrial space with a certain amount of curb appeal" and has been scouting properties in Hauppauge, Demetriou said.

Lorraine Gregory, which has seen steady year-over-year growth since the economic downturn, has acquired three firms over the last five years and is considering additional acquisitions. But while growth has been strong, it's still a bit unnerving to consider taking on so much space.

"We have an advisory board, and we're hammering out all the costs to make sure we are on solid ground," Demetriou said.

To operate efficiently, "it's critical that businesses get the correct amount of space," said John Robertson, owner of Sexy Salad Catering Co. in Hauppauge, which recently expanded for the second time in three years, but first made sure it was economically feasible. "When I expanded three years ago, it was the right time for me. I was bursting at the seams and that expansion helped me raise the bar on my business. This most recent expansion (1,100 square feet of additional retail space) was an identical necessity."

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Photo by Bob Gigliano

RHONDA KLCH: When she found herself with extra space, she subleased it to alliance partners.