

FORTUNE Small Business

The Ultimate Small-Business Resource Guide

Real estate 101

Choose the right location for your business.

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(FSB) - When Jared Heyman's market research firm, Infosur, grew from two to seven employees, the CEO knew he needed more space. So, two years ago, he leased a 1,300-square-foot office in Atlanta for Infosur (infosur.com), adding 300 square feet. As business took off, Heyman hired ten more people, and the company's once-roomy digs quickly became crowded. Heyman branched out to the floor below, assigning salespeople to one area and operations to another.

Infosur kept growing, and Heyman now plans to move his nine-year-old venture to more expansive quarters in the same building. In retrospect, he wishes he had taken more time to forecast where his business would be in five or ten years. Looking back at the costs of decorating and rewiring both floors, he figures he spent about \$5,000 more than he would have had he moved to the right place the first go around. "When you get office space, you have to think strategically," Heyman says.

Whether you are starting a new business or already running a fast-growing firm, choosing the right home for your company can be tough - especially in an uncertain real estate market. You don't want to pay for space you may not use for years, but you don't want to be forced to move before your lease is up either. The trick is to estimate the growth of your business during the duration of your lease, a task that can be tough even for veteran entrepreneurs.

Giving careful thought to the goals in your business plan can make it easier to get the space you need, say real estate experts and entrepreneurs. What goals do you hope to achieve in the next few years? Will you be adding new products or services? Do you plan to hire employees with skills you don't have on your staff now? Will you seek bigger-ticket customers who will expect to meet you in a fancy boardroom? And how much revenue do you realistically expect to generate? The answers to such questions will help you find a space that meets your needs without leaving you in the red.

Here are some ideas from veteran entrepreneurs on how to select the right location, whether you intend to lease or take advantage of the tax breaks that come with buying your own space.

1. Stay on the beaten path. The old cliché about "location, location, location" is one that you can't afford to ignore. Rather than assume that you know your customers' preferences, ask them where they would like to do business with you. When Jacqueline Williams noticed sales slowing at Sterling Realtors, her firm in Middletown, Conn., she surveyed her clients to find out how she could serve them better. It turned out that many considered her office inconvenient. She had sat up shop near the Wesleyan University campus, where she had started out finding homes for professors. In her research off-campus clients said it would be easier to drop by her office if it was in the downtown business district. She ended up moving to a building in that area.

The result: Revenue picked up, not only because many potential clients noticed her shingle while driving by, but also thanks to an increase in client referrals. Recently, Williams renovated the space after buying out her partner's share of both the 17-year-old company and the building. She re-opened her offices with a ribbon cutting ceremony hosted by the mayor.

2. Consider rush hour. If you do business in a densely populated area, choosing a location right off a major highway or near public transportation may have a big effect on your team's productivity, says Matthew Adler, executive vice president of the Adler Group, a Miami-based commercial real estate firm. It is tough to schedule morning meetings if key employees are continually getting stuck in traffic. "You need to be in a place that your workforce can get to easily," says Adler.

How best to figure out whether the location you're considering fits the bill? Jason Weissman, principal in Boston Realty Advisors in Boston, suggests you pinpoint your office location on a map, then draw a circle around the spot to see just what communities in the area would be no more than an hour's commute. Or, try MapQuest (mapquest.com), to see how long the estimated commute time is for a few likely nearby towns.

3. Follow the talent. Will your company need to hire employees with specialized skills or a high level of education? If so, setting up shop near an existing talent pool will make your job easier, says Weissman. For instance, if you anticipate that you will need to hire IT workers, picking an office near a university with a strong tech program will put you at an advantage in winning top employees. To locate metropolitan areas with large concentrations of whatever skills you need, try the Bureau of Labor Statistics site (www.bls.gov).

4. Keep your competitors close. Doing business down the street - or hallway - from your rivals may seem like a roadmap to bankruptcy, but it can be a smart choice. In New York City's fashion industry, for instance, many accessories makers run showrooms in the same building, because it is more convenient for buyers from other cities to visit. "When customers come in from out of town, this makes it easy for them," says David Levy, principal of Adams & Co. Real Estate in New York City. "They just spend the day going from office to office." If you have a slightly different niche from other firms in your area, you will probably be able to pick up clients from each other. "Companies need to be close to their competitors," says Chad Benningham, a vice president with CBIZ-Gibraltar Real Estate Services in Chicago. Commercial realtors can tell you if there are such buildings in your area. Or, try trade publications for your industry or local business journals; they sometimes include real estate listings.

5. Know when to spring for pricey digs. Not every company needs to invest in Class A space. In some fields, starting up in the garage is a badge of honor. But if you work with big-name corporate clients who will visit you frequently - or you are selling your expertise in creating the right image - you can't afford to scrimp on your office for long.

Just ask Peter Madden, president of AggieCat, who just moved his seven-year old Philadelphia branding and corporate identity-consulting firm to high-rent Center City. He left behind a smaller place in a less-desirable neighborhood. Although he is now paying six times more to do business from his new headquarters, he expects to be able to attract enough high-profile clients to make his investment pay off. "In this region, if you're not in this part of town, you're not looked at as a major player," he says.

The key of course, is making sure you generate enough sales to pay the tab. Rule of thumb: Manufacturing companies should generally pay no more than 20 percent of gross sales for rent, according to Levy. Service businesses, which have lower overhead, can go up to 30 percent.

6. Push for flexibility. If the real estate market in your area is soft, your landlord may be willing to negotiate. Ask for both the right to cancel your lease with a specified amount of notice and the freedom to sub-lease the space.

If you're not sure how well a location will work for your company, there's also another solution: Rent space from a business that specializes in providing short-term quarters. Some of these firms will allow you to lease just a few cubicles for a month or two at a time. "You can get more flexibility without making a major commitment," says Weissman. Of course, it's also a way to cut costs.

Have you raised funding from venture capitalists or angel investors? If so, you may have another option. It's not uncommon for these deep pockets to rent space in their offices to startups in their portfolios. Entrepreneurs usually like these deals. Their space is likely to be better equipped than, say, your spare bedroom. ■

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