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Supply Chain Issues Impacting Tenant Leases

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We hear about it on the news and see it at the stores—empty shelves. Why? Supply chain issues. Most consumers simply buy something else instead and look forward to better days ahead. Unfortunately, supply chain issues are not nearly as simple when you are relocating or renovating office or industrial space in 2022.

What are the most challenging issues for tenants today concerning the supply chain and impacts to leases?

- **Materials and Equipment Availability:** What you need might not be available, so tenants need to be prepared to consider alternatives. Even when alternatives are available, they will likely take longer to get as compared to two years ago.
- **Rising Costs:** From drywall to paint to electrical outlets, the cost of materials has been going up—along with labor costs. These rising costs create problems for tenants that require work in the space being leased before it can be occupied. It's also a problem for tenants that simply want to upgrade or reconfigure their current space.
- **Lead Times:** If your company is planning to move, the timeline to complete construction is longer than it was last year. Many tenants are missing their move-in dates because the spaces aren't complete, primarily due to materials not being available. For example, if door frames and steel studs take three months to arrive on the job site, your construction project timeline just got three months longer.

When will these supply chain issues just go away? Unfortunately, we are hearing from industry experts that supply chain issues will continue to worsen in 2022. That will push prices higher and make lead times for materials and equipment even longer than they are today. Some supply chain recovery is anticipated sometime in 2023, but most industry experts are cautious with their predictions at this stage.

So, what can a tenant do to mitigate supply chain issues and lessen the negative impacts?

- First, retain an exclusive tenant advisor to help you. We have seen firsthand how supply chain factors are negatively impacting tenants and already have solutions to recommend that will help you overcome them.



- Start your leasing or construction processes really early. We suggest you add a minimum of three months of time for smaller projects and six months up to a year for larger projects.
- If your company has specialized equipment needs, it would be wise to pre-order those items so they don't negatively impact your overall relocation timeframes.
- Your real estate advisor will help you consider space alternatives, lease structuring options, and will use proven negotiation tactics to lessen the supply chain impacts to your company.

If you have a 5,000 square foot office space to relocate, start the process 15 months before the lease expires instead of just 12 months. The main reason is that construction is going to take longer, so you need to sign a lease three months earlier than you would have normally done in the past. If you have a 100,000 square foot manufacturing facility to relocate, start that process 6 to 9 months earlier than you would have in the past. If you are considering new construction alternatives start even earlier as there are very long lead times on steel.

In the end, real estate transactions have many sequential steps to complete before a tenant can occupy a space. Delays in materials and labor will likely cause a day for day delay in the project's completion, so it is critical to start early and retain an exclusive tenant advisor to guide you through the process to mitigate supply chain challenges.

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