



How Landlords are Keeping Their Buildings *Leased*



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As we near the end of the third quarter 2008, the opportunity to achieve a landlord's 2008 goal of 95% occupancy is becoming more challenging. Many landlords are stretching far more than they had budgeted in their proforma in order to keep

their building full or at the very least any increase in the vacancy rate. The landlords I'm talking with are doing their best to be as creative and negotiable as possible in order to retain their existing tenant base. As an example, I am representing a sizeable

law firm which needs to retain its flexibility for the next twelve to twenty four months. The landlord initially started the negotiations by proposing a five-year lease term with aggressive business points. However, this landlord did not address the tenants need for flexibility resulting in some reflection by the tenant. Realizing there was a real chance of losing this tenant, the landlord prompted the existing landlord to offer the tenant the right to downsize up to 50% of its space while only having to repay the landlord landlords un-amortized out of pocket costs. There was no termination penalty or other non palatable terms.

An interesting and unfortunate negotiating style by one landlord cost them a 10,000 square foot engineering firm. The tenant wanted to renew for one year, as-is, with no concessions other than keeping the rental rate the same. The landlord's mentality was that in order to provide the tenant with such an outstanding amount of flexibility with the one-year term that the tenant would need to pay a premium. The tenant was introduced to another landlord who provided the tenant with a lower lease rate and a turn-key tenant improvement allowance. The tenant relocated and the vacated space is still dark. Wise landlords, who have a tenant that occupies space in their building and need to downsize, are doing so, and at the same time forgiving the tenant's rent in an effort to keep the tenant within their portfolio. The other option would be to watch the tenant go out of business. Landlords that are unwilling or unable to negotiate on their lease terms will find tenants relocating who would rather stay in their space. I represent a client that needs to downsize its space by 65%; they could stay in a portion of the space because it is logically divisible, yet this landlord is holding firm to its terms, forcing the tenant to relocate. I imagine that space will sit vacant longer than the landlord would like.

Now let's look at the bright side. We are seeing landlords becoming extremely aggressive in the market-

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ing efforts in order to lure the limited number of tenants in the market to their building. The time of free rent, moving allowances, increased tenant improvement dollars for a build-out, broker bonuses and other types of creative concessions are back in full swing. I mentioned the bright side, because landlords that are willing and able to provide the above concessions are able to woo tenants from their competition. I just completed a transaction where the tenant needed to reduce their occupancy costs, yet their existing landlord was attempting to increase their rent by 27%. The tenant received rental abatement, a relocation compensation and a turn-key tenant improvement allowance from another landlord. I believe the tenant's old space is still vacant. Landlords with vacant space at an outdated building need to realize that they will need to invest in their asset

in order to entice tenants to relocate. Some of the improvements I see being done include lobby upgrades, fresh landscaping, cleaned up vacant suites or spec suites, providing hypothetical floor plans on a display board along with building standard materials. It's always best to have vacant suites freshly painted and if the carpet cannot be cleaned appropriately, have the carpet removed and have a display board with building standards in the front lobby area. Some other creative ways a vacant building landlord can entice tenants to view their space is by providing a touring incentive to the leasing professional. I am hearing about landlords offering \$50 for a building tour, \$500 for a proposal and other incentives to help their building stand out. If a listing agent is able to demonstrate to a landlord that a potential tenant could be shown 20 or 30 alternatives, it may make sense to offer some type of incentive in order to get their building leased up. It is increasingly not uncommon to see a landlord provide a broker leasing incentive of \$1

-\$3 per square foot once the transaction is consummated.

To be sure, this current market is challenging for both tenants and landlords alike. Landlords that realize this and understand the tenant's issues, concerns and motivations are more likely to retain and attract tenants. There is opportunity in all cycles of the market.

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Randolph Mason is Senior Vice President of Lee & Associates' Irvine office. Lee & Associates is one of the largest national commercial real estate providers with regional expertise. As a group of independently owned and operated companies, Lee & Associates currently has more than 34 offices located in California, Arizona, Nevada, Missouri, Illinois, Michigan, Texas, Wisconsin and Idaho. Additional information is available at www.lee-associates.com.



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