

Landlords woo tenants with savings

Change tacks as vacancies mount

BY THERESA AGOVINO

THE FASHION TOWER is out of vogue. Management shed the old name of 499 Seventh Ave. like last year's shoe style and now refers to the building by its address alone, in the hope that the property will no longer be pigeonholed as a single tenant-type tower. In the lobby, display cases no longer feature fashion tenants' wares. Upstairs, the landlord has constructed a sample office to show all sorts of companies how it could build office space to suit their individual needs.

"We are repositioning the building to be industry-neutral," says Michael Dubin, president of Savitt Partners, which manages 499 Seventh and owns four other buildings in Manhattan. "We want to appeal to a bigger audience."

Faced with anemic demand for space, rising vacancy rates and all-too-scarce credit, landlords are battling for tenants in a glutted office market. Owners—ranging from traditional real estate companies to lenders that have seized buildings from



BRAVE NEW WORLD

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overleveraged buyers—are offering more months of free rent, cut-rate leases and lavish prebuilt office space. They're also throwing in other goodies, such as flexible lease terms, environmentally friendly suites, and amenities like concierge services.

"In order to get the transaction done, landlords have to be very creative and very flexible," says Mitchell Konsker, a vice chairman at Cushman & Wakefield Inc.

No good options

LANDLORDS HAVE NO choice. The vacancy rate for Manhattan office space soared to 9.6% in the first quarter, up from 6.1% a year earlier, according to Cushman & Wakefield. Meanwhile, the amount of space covered in new leases tumbled 39% from the year-earlier period, to 3 million square feet, making this the least-active first quarter in 25 years.

Battered companies, mostly in the financial sector, are flooding the market with sublease space. In the first quarter, the amount doubled, reaching 10.3 million square feet. Sublease spaces drive down rents because tenants anxious to unload them frequently deeply undercut market rates in a scramble to ease the strain on their balance sheets.



WIDENING THE NET: Michael Dubin is seeking a broader range of tenants for a Seventh Avenue building known until recently as the Fashion Tower.

BRUCE PENNIS

Average Manhattan asking rents are down 11% from their peak of last year, to \$65 a square foot, but brokers say the amounts that landlords are actually accepting has plunged by between 25% and 30%. The \$100-a-square foot rents that had become practically commonplace during the boom years are a rarity. Only five deals reached that lofty level in the first quarter, down 81% from the year-earlier period.

Earlier in 2009, the owners of 650 Madison Ave. dropped their rent to around \$85 a square foot from about \$100 and began breaking up two tower floors into smaller office suites. The strategies worked. Activity blossomed, and although no deals have been signed yet for the prebuilt space, there are several leases under consideration.

"Tenants are looking for value, and we believe 650 Madison offers that to them,"

says Andrew Chung, principal at The Carlyle Group, which owns the building with Ashkenazy Acquisition Corp.

Landlords are also waking up to the facts that recession-weary tenants don't want to pay top dollar for space and they don't want to dip into their pockets to outfit that space—and that in this market, they don't have to do either. Companies subleasing offices typically will hand over a fully furnished space at rents that are nearly 20% lower than those for direct-from-the-landlord space.

Anthony Westreich, chief executive of Monday Properties, says he decided to build out space for an existing tenant that was looking to expand in his tower at 230 Park Ave., since there is nearly a half-million square feet of beautifully appointed sublease space available in neighboring buildings.

"I know what is out there and what it looks like," says Mr. Westreich. "It would be nonsensical for me not to build space."

Rather than compete simply on price and on prebuilt space, SL Green Realty Corp. is trying to pique tenants' interest by offering green space. Manhattan's largest landlord just completed a prebuilt office suite that was constructed using environmentally friendly products.

Green is good

"THIS SETS ME APART," says Steven Durels, executive vice president of SL Green. "There is a groundswell of enthusiasm for the green movement."

Such efforts to anticipate tenants' every whim contrast sharply with the trends of recent years, during which building owners got rich by routinely hitting tenants with higher rents and less

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forgiving lease terms.

And then there is the newest, fastest-growing group of landlords: creditors that have reclaimed control of buildings from overleveraged owners. Barclays Capital is taking back 475 Fifth Ave. from a fund run by Westbrook Partners and its partner, The Moinian Group. A Quebec government pension fund recently took control of 1330 Sixth Ave. from developer Harry Macklowe.

The new owners will likely enlist professional managers to oversee their spoils. And they will also be more eager than most to lease up their space—and to sell off their properties and get back to business.

"If the markets open up and lenders start lending again, then the sale market will strengthen, providing stronger exit strategies for lenders and owners alike," says Doug Harmon, senior managing director of Eastdil Secured. ■