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Landlords working hard to keep tenants

Landlords are negotiating terms, dangling concessions and offering improvements to retain rent-paying businesses - hot commodities in this market

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During the real estate boom, losing a tenant didn't matter so much. Any tenant, whether office, industrial or retail, could easily be replaced.

Now, empty space is taking longer to lease every month. Amid a credit crunch and a slowing economy, tenants who can pay the rent are suddenly a hot commodity.

That leaves landlords working overtime to keep the tenants they have. They are more focused than ever on renewing leases, willing to negotiate terms and offer concessions such as tenant improvements, months of free rent and sometimes even reduced rental rates.

Landlords are also trying to keep tenants happy by paying more attention to the appearance and upkeep of properties and responding faster to maintenance requests and complaints.

"Typically people don't like to give concessions, but the reality is the reality," said Barry Sharpe, whose Hialeah-based Sharpe Properties owns retail, warehouse and office properties.

Some landlords are going so far as to extend help to tenants that are struggling to stay in business.

"We had a wave of them a couple months ago and there seems to be kind of a second wave here that's starting," said Andrew Ansin, vice president of Sunbeam Properties and Development, whose holdings include the Miramar Park of Commerce.

The park has a vacancy rate of 5 percent, compared with 3 percent a year ago. To keep tenants, Ansin helps firms he feels have strong future prospects. For example, Sunbeam acts as a source of credit, allowing companies to delay rent payments. Ansin also has renegotiated leases, lowering rent rates in exchange for a longer lease or for dropping contract provisions Sunbeam didn't like. He has also moved tenants into smaller spaces at reduced rents.

"It gives us the opportunity to work with [companies] and hopefully help them stay in business," Ansin said. "We could certainly put them out of business, but we don't want to."

Sunbeam, which has no debt and is privately held, has the freedom to make such deals. Owners that bought properties during the last five years or so often do not. For them, as for most property owners, the priority is renewing leases that will expire within the next few years.

Coral Gables public relations firm Kreps DeMaria found its landlord eager to negotiate when it renewed its lease in July, after fielding dozens of inquiries to move. The owner "made it compelling to stay," said Israel Kreps, CEO.

The owner agreed to put in new carpets, paint and doors. He also moved the base year for tenant "pass-throughs" -- typically, tenants have to pay the difference in expenses such as property taxes

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and insurance if they go higher than their base year -- to the current year. This reduces Kreps DeMaria's overall leasing expenses, Kreps said.

Those kind of concessions are becoming more common. "Landlords . . . are willing to be more generous in terms of tenant improvement allowances and terms," said Jose Juncadella, president of Fairchild Partners Commercial Real Estate Services.

At the same time, Juncadella said, economic uncertainties also make tenants more likely to renew their lease rather than relocate, especially if they can renew for a shorter term.

Industrial tenants in particular want shorter leases, and some landlords in that sector are renewing for three to five years or sometimes even one year, compared to the typical five to 10 years, he added. They are also reducing rent increases. "We're seeing a lot of renewals in the low \$9 a square foot range, where they were approaching, at the end of last year, close to \$10," Juncadella said.

For office space, how good of a deal tenants get varies by county, said Donna Abood, CEO of real estate firm Colliers Abood Wood-Fay.

Broward County landlords are offering up to six months of free rent and shorter leases, in addition to generous tenant improvement allowances. In Miami-Dade, she said, incentives are rarer, though leases may extend today's market rates into the future and include healthy improvement packages.

In both counties, tenants who "recast" -- sign a new long-term lease a year or two before their current one runs out -- can often get reduced rent for the duration of the original lease in exchange for agreeing to stay five to 10 years beyond. Reductions can be as high as a couple dollars per square foot for the current lease term.

Some large tenants who have recast office leases in downtown Miami saved millions of dollars, said Douglas G. Campbell, president of Campbell Real Estate Advisory Group.

"And they're locked and loaded for the next 10 to 15 years at what can easily be perceived as rental rates that are significantly below current and future market rents," he said.

Nowhere is the race to renew stronger than in downtown Miami, where three massive new office buildings are due to come online in 2010. Brickell Financial Centre, 1450 Brickell and Met 2 will add some 1.8 million square feet to that area's office market. That means a lot more competition for tenants whose leases expire in 2010, 2011 and beyond.

'You are seeing landlords more willing to improve tenants' existing space than you would have a year ago,' said Tony Puente, the landlord representative at Bank of America Tower at International Place, downtown Miami's second-largest building. "If it costs them another \$10 a square foot in tenant improvements, they would rather do that than have a vacancy in a market where vacancy is increasing."

Puente is approaching tenants earlier to renew, before the market gets softer. While many of those early renewals came with lower lease rates, Campbell said owners are "taking a hit but stabilizing their properties for the future."

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Nearby at Wachovia Financial Center -- South Florida's largest Class A tower -- tenant representative Don Cartwright is stressing service and consistency to keep his tenants.

MORE MAKEOVERS

Both buildings plan upgrades and renovations, expected to be complete well before 2010. In fact, property upgrades are a key way owners help their buildings stand out.

Bush Development Group, for instance, is just finishing a \$4 million renovation of its Galleria Corporate Centre in Fort Lauderdale. The company made over the building's exterior, lobby, elevator banks, elevator landings and restrooms, and is bringing in a national chain restaurant.

"We have tenants that I think clearly would have left had we not done renovations," said Henry B. "Hank" Bush, the company's principal. "It's the small things that are making the difference for the tenants these days."

Adler Group spent more than \$1 million renovating Kendall Market Place and \$100,000 on landscaping, signs and lobby upgrades at its Office Park at Miami International Commerce Center, and expects more renovations to come. But Adler Group's real focus is improving tenant service, said Daniel Heisler, executive vice president for Adler Realty Services.

The company surveys tenants quarterly and recently implemented a new computer system for handling maintenance requests more quickly. At Kendall Marketplace, managers are making holiday plans earlier than ever. Heisler plans to put up holiday lights early and will work with tenants to plan events to draw customers.

NURTURING ATTITUDE

"You want to make sure you nurture that relationship," he said. "If they're happy with their space and they're happy with how the building looks, they'll stay because it's extremely inconvenient for the tenant to pick up and move."

Kreps, whose landlord personally negotiated his lease renewal, agreed. "I think where landlords make a big mistake is that they disappear, and when it's lease renewal time they become your best friend," he said.

Abood, too, believes that it's "back to basics" in the commercial real estate world, with new emphasis on things like keeping a property clean, making sure landscaping is fresh, answering tenants' phone calls and checking up on on-site management and meeting with tenants.

A good relationship can make the difference between a tenant renewing or leaving. "Tenants have been known to pay more rent in a building where they feel needed," she said.