

# THE WALL STREET JOURNAL.

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## GREATER NEW YORK

### Office Landlords Sweeten Deals

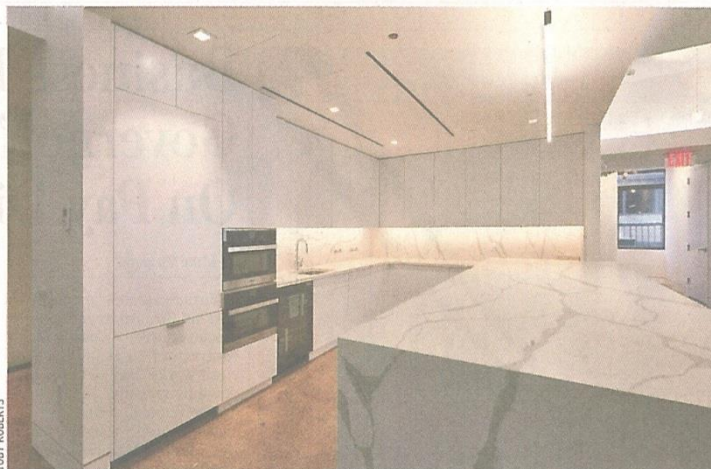
By KEIKO MORRIS

Owners of Midtown Manhattan trophy towers have ramped up the concessions they make to tenants to build out office space, often taking on the construction work themselves and incorporating high-end touches in hopes of speeding up leasing and keeping rents up, according to market reports and real-estate executives.

In the third quarter, the average tenant improvement allowance offered by landlords of top-tier Midtown buildings was \$87.27 a square foot, almost triple the \$30-a-square-foot levels logged in 2008, just before the commercial real-estate market crashed, according to real estate services firm JLL. Midtown asking rents for trophy properties are \$107 a square foot today, below the peak of \$111 a square foot reached in 2008, according to JLL.

One of the factors driving the tenant allowance increase is the demand for office space between 2,000 and 10,000 square feet that has already been built out and is ready for occupancy, said Cynthia Wasserberger, a JLL executive managing director.

For tenants with plenty of options, that has translated



The office kitchen at 145 E. 57th St. in Manhattan includes a marble island and high-end appliances.

into an expectation of upscale finishes such as marble floors or counters, and pantries with top-of-the-line appliances.

"To attract tenants and remove the hurdle to relocating, which is the capital cost to build out space, landlords are continuing to build out space," Ms. Wasserberger said.

Landlord concessions at the top of the office market reflect the broader rise of concessions across all levels of office buildings. Building own-

ers are offering longer free-rent periods in addition to assuming the construction work and costs to create ready-to-occupy offices as well as customized build-outs, brokers and real-estate executives said. Rising construction costs also have pushed up the amounts landlords are spending so they can maintain or boost rents, they said.

The amount Manhattan landlords spent on free rent and tenant allowances rose to \$173 a square foot in the first

quarter of 2017, up almost 14% from \$151.93 in 2015, according to real estate services firm Savills Studley.

In the third quarter, the vacancy rate for Manhattan office space rose 0.1 percentage point from the previous year to 10.7%, according to Savills Studley. In addition, there is a large amount of so-called shadow space, or space that will be vacated in 18 months or more by relocating tenants, said Jeffrey Peck, executive managing director at Savills

#### Nice Enough Just Isn't Good Enough

Five years ago, Manhattan office landlords tended to build out smaller spaces just nice enough to attract tenants. Light-wood doors, inexpensive carpeting, dropped ceiling tiles and maybe a pantry with a microwave usually did the trick. Tenants today are expecting more.

At 145 E. 57th St., owners ABS Partners Real Estate and Benenson Funding Corp. drew inspiration from luxury residential condominiums when designing the prebuilt office space on six floors, said John Brod, a partner at ABS.

The \$20 million improvement project includes large pantry spaces with oversize marble islands, Miele brand convection and microwave ovens, faucets for both sparkling

and still water as well as ice makers. The owners spent an estimated \$140 a square foot, he said.

"There are a lot of prebuilts and they all look alike," Mr. Brod said. "We specifically set out to build a better product."

At 601 Lexington Ave., Boston Properties Inc. created two prebuilt spaces on the top floors, creating large pantries with stone counter tops and installing high-end stainless steel appliances as well as marble floors in the reception area, according to the company.

Landlords might be spending more now, but they figure their investment in high-end prebuilts will give them the flexibility to do shorter leases, serving multiple tenants leasing the same space over time, said Andy Levin, senior vice president at Boston Properties.

—Keiko Morris

Studley. Landlords have had to up their game, offering not just prebuilt, ready-to-occupy spaces but custom-built spaces at their expense.

"Now the tenant is saying, 'I don't want to fit into your prebuilt space, I want you to build it to my specifications,'" Mr. Peck said. "So where a prebuilt space costs \$100 a square foot, a new building installation can cost landlords \$150 to \$200 a square foot."

Landlords generally expect to benefit from leasing the

space more quickly and at a higher rent, said Andy Levin, senior vice president at Boston Properties Inc., which has long offered prebuilt and customized office construction as part of its leasing strategy.

Many tenants today opt to leave building and upfront costs to building owners.

"Tenants prefer to focus on their business and leave the building of space and investment of capital in that space to landlords, if they are willing to do it," Mr. Levin said.