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As market pressures build, landlords piling on incentives

BY YUDISLAIDY FERNANDEZ

Pressure to lure and retain tenants has landlords offering more incentives than they did a year ago to lease their office units, a local landlords' representative says.

With pressure building as two new office towers open their doors, some desperate landlords are making below-market deals that some say further drive down rates and hurt the market.

Brian Gale, managing director of Taylor & Mathis, which leases One Biscayne Tower in downtown Miami and 1101 Brickell, says more concessions are being made now than a year ago.

The combination of a weaker economy and added office space supply is driving concessions, he says, ranging from free rent to generous tenant improvement allowances to build-out or remodeling of the space, coupled with aggressive rental rates.

For example, Mr. Gale says buildings with a higher occupancy may slash rates about 5%, while others with a larger hole to fill are offering up to 10% discounts on rates.

For example, he says at One Biscayne

Tower rates haven't dropped significantly because the building is 93% occupied.

Free rent is an option many landlords are pursuing today, he added, in exchange for additional lease terms.

"These are things landlords are trying to do to attract new tenants and keep existing tenants," Mr. Gale said.

Alex Zylberglait, Marcus & Millichap's vice president of investment and director of the firm's National Office and Industrial Property Group, says on some long-term deals landlords are offering up to a year of free rent.

He says tenant improvement allowances are becoming a popular incentive as well as memberships to health clubs, free or reduced parking fees, and access to certain building amenities.

The size of the incentives varies with the leverage of the tenants, says Scott Strickland, senior vice president and leasing director at Jones Lang LaSalle.

Mr. Strickland, who represents 701 Brickell Ave., says he is seeing larger tenant improvement allowances in this market as landlords "don't want to lose the tenant because you have to go back in the market to replace that tenant."

Tenant retention has become a big

focus for existing landlords as many invest in building upgrades to compete with new and existing class A buildings.

Almost every major building is going through a renovation, Mr. Gale says. "You have to do that to keep the pace with the bigger buildings. Now is the time to spend money to spruce up the building and try to compete with those new buildings."

For example, One Biscayne Tower is undergoing a \$4 million renovation that includes upgrading the lobby, elevators and parking garage.

This could make a difference for an existing tenant deciding whether to leave or stay.

"Tenants in a good building with good services who have been there for a long time nine out of 10 times will renew as long as the deal is right," Mr. Gale said.

But competition from the new buildings coming online in downtown and Brickell is stiff.

Met 2 Financial Center and 1450 Brickell are being very aggressive, Mr. Strickland says.

They are "reaching to existing tenants because there are not enough new tenants in the market," he said. "The closer

they get to finish those products, the more aggressive they get."

Desperate times are leading some landlords to take desperate measures that are hurting others in the office market, landlords say.

"The biggest hurdle is that you've got some landlords that are desperate and they'll throw well-below-market deals to a broker or tenant," explained Mr. Gale, whose firm represents landlords in downtown Miami, Coral Gables and South Beach. "That catches on. People who hear about it feel they have to lower their rent, but sometimes it is really one owner who is doing that and sometimes it has a trickledown impact."

Overall, until the economy stabilizes and there is some job growth, Mr. Strickland says he doesn't foresee rental rates rising.

Mr. Zylberglait agrees employment growth is key to a healthier office market in the years ahead.

"Let's face it, we are still suffering from pretty high unemployment challenges," he said. "To the degree jobs are not created, that is going to be a drag on demand for space that is going to continue to be a challenge for landlords."