

The Charlotte Observer

Rent-break season for office tenants

In downturn, landlords making deals to lease buildings.

Posted: Thursday, Jun. 11, 2009

Just a year ago, Charlotte office lease rates were hitting record highs.

New office towers filled quickly, pushing rents up and poorer companies into the suburbs, where rates also rose.

Today, tenants have gained the upper hand.

As companies struggle to stay afloat during the recession, landlords are giving tenants breaks on their rent payments in ways some say are unusual for Charlotte's historically tight office market. Property managers are cutting rents midway through contracts, for example. One company is letting tenants break leases without penalty. Another broker is giving tenants free HDTVs.

Property managers always have adjusted rents to reflect market conditions. But today's negotiations are complicated by tighter credit markets and weakened demand, conditions affecting both parties. Some real estate firms strapped for cash also are struggling – such as Charlotte's Crescent Resources, which filed for bankruptcy protection this week. Owners of new buildings who may be awash in debt could be particularly vulnerable and eager to keep tenants happy, analysts say.

“Before this recession, landlords would stay firm on their rates because they felt they could



Vacant spaces may soon be occupied in the EpiCentre as landlords are willing to negotiate prices in a time of a recession. JESSICA ROTKIEWICZ - jrotkiewicz@charlotteobserver.com

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Eola Capital last month quietly rolled out what it calls a “no risk” plan to lure new tenants, often accountants and attorneys. Tenants who sign a three-year lease are allowed to cancel the lease within 18 months with no penalty if they give 60-days notice. Typically, tenants who cancel leases might lose their security deposit plus a couple months rent, said Bryan Howell, regional vice president of the firm, which manages 1.5 million square feet of space in the Charlotte area.

backfill the space if something happened to that tenant," said John Stipp, president of Office Properties, an office brokerage firm. "What's changed is the landlord's willingness to cut rates and do better deals. At least it's a fighting chance of keeping some rent coming in."

Stipp, who represents landlords and tenants, started taking calls in January from tenants needing a break on their rent to survive. While landlords were reluctant to bargain at first, he said, they are now working more aggressively to keep tenants.

One University City landlord, for example, cut a tenant's rate this week by \$1.50 a square foot, he said. The average University area rent was \$17.59 per square foot, according to a Colliers Pinkard survey of first quarter office market conditions. Stipp is advising his landlords to offer rates of around \$15 or \$16 per square foot if they want to keep tenants. He's also giving tenants a TV if they sign a lease.

"Right now it's definitely a buyers market," said real estate analyst Frank Warren of Warren & Associates. "They are in a very strong negotiating position today."

The negotiations parallel what's happening in the local housing market, where homeowners are dropping prices and condo developers are ramping up incentives to woo buyers.

In uptown, where the office market two years ago was tighter than that in Manhattan, managers at the EpiCentre earlier this year slashed rents by \$5 a square foot to \$25 a square foot, a 17 percent drop and below the uptown market average of \$28 a square foot. This week, the entertainment complex said it is signing two new office tenants lured by the new rates: an information technology company and a bond trader, Knight Libertas, said David Dorsch of Colliers Pinkard, the complex's leasing broker.

Together, the companies will occupy about 4,200 square feet on the fourth floor, leaving about 70,000 square feet of office and retail space available for lease.

"We thought we could give some folks breathing room," said Howell, who said they've had moderate success with the program. He said his company also is taking calls from current tenants wanting to modify leases because of the recession. However, such calls have lightened up in the past three weeks, he said.

The Park condos are up for sale yet again.

The 21-story condominium project that's sat stalled in uptown is scheduled to be sold at auction at 10 a.m. July 22.

The auction is scheduled to be at the offices of Poynter & Spruill at 301 S. College St. in Charlotte, according to Laxson Boyd of Wadsworth Whitestar. Ten people have registered to bid so far, Boyd said.

The condos were bought by BB Syndication Services of Wisconsin in a foreclosure auction in November. Construction started several years ago on the 106-unit luxury tower at Caldwell and Third streets. Its developer, 222 South Caldwell Street Ltd. Partnership, part of Verna & Associates of Charlotte, accepted deposits from about 80 would-be condo buyers for the units, which were to be sold for up to \$700,000 apiece. The deposits were to be used for construction.

But construction stopped in January 2008, with the building 70 percent complete, and the project went into foreclosure.

For more information about the auction, call Boyd at: 414-257-1500.

"The wise landlord is going to say, 'What can I do to win tenants to my building?'" said Dorsch, who also tracks the Charlotte office market at Colliers Pinkard. "There's more incentive this time to work with existing tenants to adjust leases to meet needs."

Jon Szymanski recently asked his landlord, The Bissell Companies, for cheaper rent. Sales at his company, ClickCom, an Internet and software company, fell between 25 and 40 percent this year.

"It just made sense," said Szymanski, whose company is in the ninth year of a 10-year contract for its space in a SouthPark office building. "Everywhere you look driving down the road there's some kind of sign saying 'space available.'"

The landlord dropped the current rent by \$5 a square foot to \$30 a square foot. ClickCom extended its lease by at least two years. The rent will drop another \$5 a square foot next year and fall some more the following year, Szymanski said.

"For me, the savings were significant," he said.

Retail and development analyst Kathleen Rose with Rose & Associates Southeast Inc. said landlords should request financial records of tenants asking for help and watch out for tenants that try to take advantage of them. She said that while some tenants are asking landlords for relief, "we're not seeing a lot of it."

Landlords do need to pay attention to their tenants more than ever, Rose said. But that doesn't mean they should automatically cut rents, because that could put their properties at risk with lenders if they lose too much cash flow, she said.

"It comes down to good property management skills," she said. "In the past, when the market was hot, if the tenant went out of business, the space quickly was re-leased. Now, it takes keeping tenants happy and engaged in the process."

With three million square feet of new office space scheduled to come on the uptown market in the near future, analysts predict rents will continue to fall.

Dorsch of Colliers Pinkard said he expects the deal-making to continue this year and next. His firm projects asking rents citywide will fall by as much as 10 percent this year – and by as much as 15 percent in uptown alone.

"You're going to see more (dealing) in 2009 and more in 2010," he said.

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