

WINNING ON THE MARGINS

Adding value through creature comforts may not clinch the leasing deal, but it can sharpen a property's competitive edge

By Paul Bubny
Editor

As vacancy rates start creeping upward, office property owners may find themselves having to put forth a little more effort to keep credit tenants. The gap between asking and taking rents is reportedly widening as landlords offer more concessions. And the majority of respondents to this magazine's second annual Building Owners Survey say they're spending more on amenities to keep their properties competitive.

But do amenities in and of themselves make or break the deal? Probably not, says Kenneth Siegel, managing director of leasing at Jones Lang LaSalle. "On the margins, those kinds of things indicate to people that they're in a building of quality," he tells Real Estate New York. "But generally, when you're walking into those types of buildings, you know it. From a tenant perspective, I don't think those types of amenities really make your choice for you."

On the other hand, extras may sharpen a property's competitive edge. "These days, there's going to be competition for tenancies, no question about it," Siegel says. "The owners who are known for managing clean, modern, efficient buildings are going to do better than the average because of that." Even in a time of cost-cutting, Siegel predicts, you'll see tenants "paying more attention and own-

ers making sure that all the lights in the elevators are lit and working. Those types of things say to people, 'I'm in an asset that somebody's really still taking care of.'"

The positive impression conveyed by amenities and attention to upkeep can transcend a building's street address. "Despite stagnant leasing activity in Midtown, those properties offering lower rents, as compared to the more elite districts, and a wealth of class-A amenities are attracting the steady interest of businesses seeking to relocate or even expand their operations," says a spokeswoman for JRT Realty. "Today's sophisticated tenant is seeking column-free office space and low-loss factor as well as an array of amenities to complement a first-class identity. With asking rental rates still exceeding \$100, prominent amenity-rich trophy buildings are offering viable alternatives to the Park Avenue District."

JRT cites the 487,501-sf 780 Third Ave., which it manages for owner TIAA-CREF, as a case in point. Located east of the high-rent districts along Fifth and Madison avenues, the property offers a large outdoor plaza; a 154-seat terraced auditorium and seven conference rooms, available to tenants at no charge; advanced business communications technology; concierge services; and floor-to-ceil-

ing windows, according to JRT. The 50-story property occupies the entire westerly blockfront between 48th and 49th streets. Devon & Blakely and Ribot are among the ground-floor retail shops.

The attention to amenities appears to pay off in leasing activity. Twenty-two deals totaling more than 150,000 sf were closed in the first three quarters of 2008, according to JRT.

In situations where amenities themselves may be taken for granted, there's still an opportunity for owners to add value. For example, the WSJ Office Network—a partnership between Chicago-based Office Media Network and the *Wall Street Journal*, launched in July 2006—provides content keyed to all four sections of the daily newspaper. It's displayed on flat-screen LCD monitors 37 to 47 inches wide in building lobbies and common areas, or on 14-inch screens in elevators.

This year, the partnership expanded its offerings with the Signature Event Series, a schedule of pre-packaged themed events built around specific product or business categories. The WSJON coordinates program management, event staffing, site logistics and pre-event marketing. The 2009 schedule will include events geared toward health and fitness, green offices, business travel, personal technology and solutions for small/medium businesses.

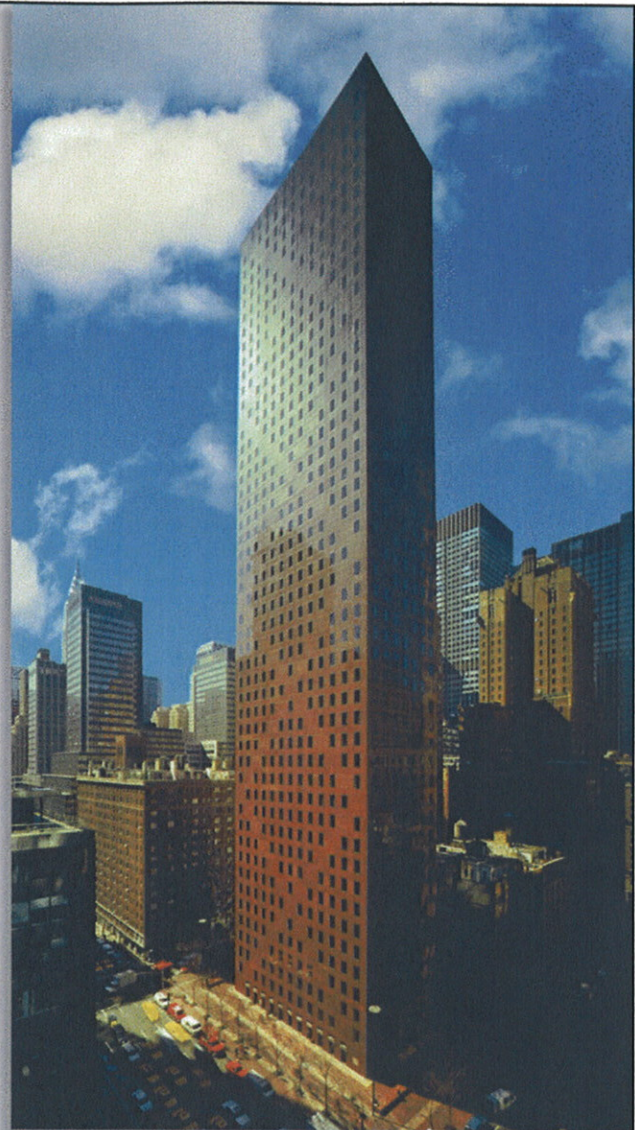
"The idea is to combine *Wall Street Journal*-branded events with certain marketers such as Blackberry," says Brett Greenberg, senior vice president of property development with OMN. "So we're really adding value to the experience at the building."

According to a fact sheet from OMN, the WSJON enables building owners and managers to directly communicate customized building-related messages to tenants in real-time. It allows building management to welcome new tenants, issue construction notices and market available space. Additionally, a security message system allows for immediate override of all programming in the event of a building evacuation or if tenants and visitors are in imminent danger.

Greenberg says the system was developed "with the real estate owner in mind. We wanted to create an amenity for premier office buildings and really provide an added tool to landlords so they can do a better job of communicating with their clients throughout the day. The feedback that we've gotten so far has been great. Owners appreciate the fact that they're able to co-brand with the Journal, and they also like the flexibility of being able to post messages to their clients throughout the day. They like the fact that there's a life safety piece attached to this, so they can override programming in the event of an emergency."

Among the major New York-area landlords that have installed WSJON at their properties are Mack-Cali Realty Corp. and the Sapir Organization. According to OMN, the WSJON will reach 2.8 million viewers per month in 15 markets by year's end. "People are very aware of the bottom line, and they're looking for amenities and tools like this to add value and to take the buildings out of the commodity game," Greenberg says.

Independently conducted research cited by OMN says that 84% of real estate executives believe communication amenities like WSJON add value to their buildings, and two-thirds believe these amenities assist leasing efforts. Siegel is not so sure. "It's a nice feature to have, but I don't think anybody's making a decision based

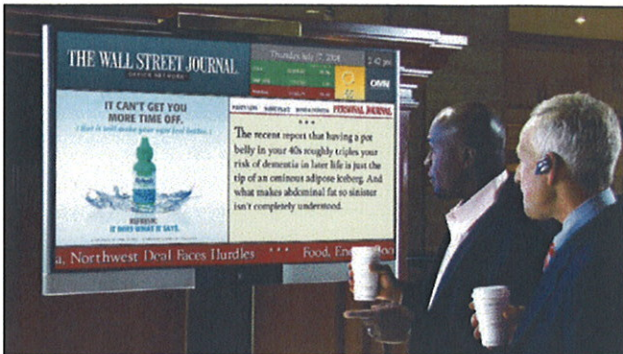


TIAA-CREF's 780 Third Ave. has emphasized amenities to help potential tenants look at Midtown options east of Madison or Park avenues.

on that," he says of communications amenities in general. "It's more of a reflection of the type of ownership the building has."

On the other hand, Siegel notes that tenants always appreciate an effective communication plan "in whatever form it takes. It could be an e-mail chain or it could be announcements over the building system when appropriate, giving a heads-up to the representatives of each tenant that fire drills are going to be taking place. It's always good to be out in front of it and have your tenants in the know. But most owners and managers are savvy to that and are doing the things that they need to do."

Another amenity that small- to medium-sized tenants are grateful for, Siegel says, is "some kind of conference center or facility available to the building's occupants at large. For more modest-sized tenants, it may not be cost effective to include it in their



Building tenants have responded positively to communication technologies such as Office Media Network's Wall Street Journal Office Network.

space," because they might not need it on a regular basis.

However, what may be a desirable amenity in one setting may seem superfluous in another. "New York's a funny place," says Siegel. "With so many options for food within two or three blocks, it's hard to make a case that a cafeteria makes a difference in a negotiation. If it's already in the building, offering it to tenants helps. But if it isn't, you wouldn't make an investment to put it in."

In the context of a suburban office park, though, the convenience of an on-site cafeteria might be more of a draw. "Even in some of the more urban settings, like Stamford, you're using valuable time to get in your car and drive," says Siegel. "A number of buildings in Stamford have cafeterias, which tenants really appreciate."

Regardless of whether an office building is urban or suburban,

most tenants appreciate some form of convenience retail, "so you don't have to leave the building to get your newspaper or chewing gum," Siegel says. Even better, he says, is if other convenience retail is available from inside the building. "It may not be part of the lobby, but it may be accessible," he says. "The most extreme example of that is something like the Rockefeller Center concourse."

Parking is also an important issue, in some parts of the city as well as in the suburbs. "Whether you have structured parking under the building vs. surface parking, whether you have reserved versus non-reserved—all of this influences decisions on some level and certainly it's something that get negotiated," Siegel says.

In some instances, the tenant's appetite for a particular amenity is determined less by the setting as it is by the type of work the tenant does. For example, in a law firm, where the workday extends well beyond the normal 9-5 setting, "what's important is some kind of relatively inexpensive HVAC," says Siegel. "Instead of the landlord providing basic services from 8 a.m. to 6 p.m. Monday through Friday, they're available from 8 a.m. to 8 p.m. or 7 a.m. to 8 p.m. Monday through Friday and then from 8 a.m. to 1 p.m. on weekends. You can call that an amenity, but it's a real savings to those tenants that have to be there outside of normal business hours."

Even so, Siegel says building owners shouldn't pin all of their hopes on the amenities available at their properties. "Having food choices available, having a drugstore close by—on the margin, those things do influence tenants' decisions," he says. "But these days, it's about the cost of leasing space." —RENY

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