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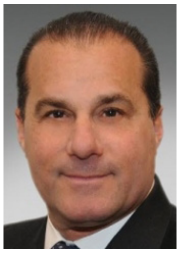

BOTH SIDES NOW

By Jeff Zund, Executive Director of HSP Real Estate Group

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Third quarter office leasing exceeded expectations for many of us in New York City and optimism is still high for the end of the year. In addition to a robust summer season, the next few months are projected to be even more active with increasing demand from tech start-ups and a host of new players in the workshare space. We also saw an interesting shift in leasing strategies, particularly concerning lease terms, and a willingness by property owners to meet those new norms.

Of the 200,000-plus square feet of space our team at HSP leased this summer, and on both sides of the proverbial aisle, a substantial share included build-to-suit office space. Moreover, several leases had only three-year terms, rather than the more traditional five- and 10-year terms. And because HSP is a firm that has more than 5 million square feet of commercial assets under ownership and/or management, we witnessed unprecedented flexibility in negotiations.

In the current market, many commercial landlords are open to implementing quality buildouts that may be used by multiple tenants over a 10-year period. They're smartly designed and executed with open workspace and contemporary floorplans. It's a worthwhile investment if it incentivizes tenants to stay longer or attracts new ones to take over the space, as is when a lease expires.

The co-working space category continues to flourish, spearheaded by the amazing growth of WeWork, before recent setbacks, and Knotel. There are also many new co-working space companies entering the market. As the category proliferates, the most critical questions for landlords focus on such issues as whether to lease to co-working firms, which ones represent the best candidates for a space and, most importantly, how much space to allocate for that use.

When wearing our landlord and landlord rep hats, we take a more conservative approach. It is our company's policy to limit the allocation of space to co-working companies, especially on a short-term lease. Although tenant demand is driving this market, the potential loss of a large tenant in any building can impact its stability. In many of the mid-sized properties we represent or own, such as 340 East 57th Street, 24-32 Union Square East, 347 West 36th Street and 37 West 39th Street, multiple small tenants are often more lucrative and stable than full-floor tenants. In the event a small tenant leaves, it may be replaced quickly. But in the case of large footprint tenants, dividing and/or redesigning space usually requires substantial costs to the landlord.

This past year, the diversification of tenant mixes in Midtown West office properties was again in full gear, particularly buildings with fashion tenants. In many of the properties we represent, such as 320 Fifth Avenue, leasing activity spanned a wide range of business categories. Two design and furniture manufacturers, i.e., Orangebox and International Contract Furnishing, relocated to the building this past summer, representing a new and unexpected business category. Another new type of tenant for the building, Design Gym, a corporate consultancy focused on innovation, creativity, team building, training and facilitation, became part of the increasingly eclectic roster. At the same time, however, one of the building's more traditional fashion tenants, Signal Brands, an accessories licensing company, not only extended its existing lease, it tripled its space. The types of tenants at this centrally located building reflect a healthy representation of small and large businesses.

Although our company is well known for the Midtown properties it owns and/or manages, as well as our asset management and landlord rep services, we also have a robust tenant representation group. My own background, for example, is heavily influenced by more than 30 years of tenant representation assignments. These attributes provide a unique perspective and insight that often gets my deals to the negotiating table faster.

In a recent transaction at 310 Lexington Avenue, a commercial co-op our firm represents as leasing agent, my colleagues, Jonata Dayan and Brett Weiss represented the owner, while I worked exclusively with the tenant. The tenant, a men's health clinic, was looking to open a third unit in the city. Together, we were able to negotiate a deal that addressed the specific criteria of both parties. The process was quick and efficient because all of the participating brokers brought realistic, as well as holistic, perspectives to the table.

The summer's activity for HSP included leasing transactions for offices ranging from 500- to 39,000 square feet. The advantage we brought to each deal was the experience to discern how much latitude a landlord can offer a prospective tenant based on the size of the space, length of the lease, and asking rent. Overall, we discovered that in the current climate, in-depth understanding – and appreciation -- of both sides of the deal is a key advantage towards representing the best interests of our clients.