

Brokers mull leasing strategies for office market during difficult times

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National Association of Industrial and Office Properties Tulsa Chapter panelists Stephen Schuller, Jason Kennon, Bob Parker and Robert Pielsticker at a Wednesday meeting. (Photo by Rip Stell)

TULSA – Economic hardships over the last decade wiped away much of the romantic luster Jason Kennon held toward office building management.

“I used to think they were glamorous until I started working there,” said the commercial properties manager for Case and Associates. “It’s heavy lifting to keep those things running.”

With recessionary pressures still weighing down tenants and landlords alike, balancing building operating costs against rental rates and other concerns keeps Kennon and other brokers in a difficult bind.

“Last year was so hard,” said GBR Properties Vice President of Retail Bob Parker. “In addition to the snow removal

we had a number of insurable events. Some roof collapse. Hail damage. Fire. Flood. We did not have locusts. I was beginning to look around a lot, going ‘Is everyone going to church this week?’ As a result, our insurance went on average from 8 cents a foot to 32 cents a foot.”

As the February 2011 snows demonstrated, many of these problems crossed commercial real estate boundaries.

“Who would have expected back-to-back blizzards within a week?” Kennon asked a Wednesday morning gathering of the National Association of Industrial and Office Properties’ Tulsa Chapter. “Those are things where it’s just difficult to protect yourself as an asset owner. You try to share as much of that cost as you can with your tenants because they have an ownership in that as well as in the use of that property.”

Kennon indicated that these issues reflect more than the unbudgeted \$20,000 spent in snow removal.

“Back in 2002, I think our operating expenses ran about \$4.50 a foot,” he said. “We’re eyeing 7 bucks now. We’re trying to run away from it as best we can, but it’s difficult. It’s just gone up. I promise you rents have not gone up commensurately percentagewise.”

That’s why Parker and Kennon joined with Gable Gotwals real estate attorney Stephen Schuller and CB Richard Ellis of Oklahoma industrial broker Robert Pielsticker in a panel discussion of bottom-line leasing strategies for these difficult times.

Parker said GBR’s precautions started with background searches and business plan studies of prospective tenants. Pielsticker noted some difficulties in securing guarantees.

“If you ask for an audited financial statement, those are expensive to get,” said Kennon. “So then you have to go down the pecking order of, ‘OK, well, what about your personal statement?’ ‘Well, I haven’t updated that in a couple of years.’ Well, you kind of need to, because if we’re going to invest any money in this space, we really need to know what your credit rating is.”

Such defensive stands also crop up under tenant improvement negotiations.

"We're really experiencing very few people wanting to invest their own dollars in their space," Kennon said of tenant demands. "They want the landlord to pay for it and then they want us to pay everybody's brokerage commission."

When Kennon first joined Case a decade ago, \$10 a square foot covered the cost of getting a property tenant-ready.

"My biggest challenge in the last 10 years was convincing Mike Case you can't still turnkey a space for \$10 a foot," he said.

GBR budgets \$1 a square foot per year on the lease, which Parker admitted barely covers installing new carpet and paint.

"Typically in retail, we're really cheap," he said. "Not just GBR, but most retail landlords. Whatever you're going to put in that space and spend money to do, in five years, if you (the tenant) leave, the next guy's going to want to tear it out and do it all over again, unlike office where a lot of times it's sort of reusable."

"You hope!" Kennon cut in.

Both Pielsticker and Parker talked of educating tenants about what the occupant pays for under today's triple-net leases.

"A lot of the tenants I work with are mom and pop tenants literally coming out of the garage selling soap or something, so I do a lot of hand-holding on these leases, which I'm comforting and warm and kind," he said, drawing laughter. "It goes over so well."

Pielsticker recommended brokers spell out all improvement expectations in a work letter.

"Roof repairs and parking lot repairs really can add up fast," he said. "When there's a big jump in those expenses, it's passed down to the tenants. Those are a couple of exclusions that we try to fight for when we're negotiating leases."

Parker and Schuller recommended that brokers and landlords re-examine their leases for what's covered and what's not, although Schuller and Kennon also cautioned against making the documents too long or complex.

"I have seen leases with a lot of inconsistencies just because over the years landlords have cobbled together documents," said Schuller. "They see a paragraph somewhere they like and they stick it into their lease, not really thinking about how it affects the rest of the lease or some other provision. I have found a lot of leases poorly written like that, inconsistent, and I am terrified of having to defend one in court sometime."