

Landlords keep business tenants by agreeing to cut rent

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Companies looking to cut costs to weather the recession are haggling with landlords for reduced rent and other concessions – and often winning.



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Fort Worth- based Pier 1 Imports said it would close up to 125 stores if efforts to reduce rent fail.

Landlords are working hard to keep tenants, rather than trying to find occupants for empty space in a tough market.

It's happening across all areas of commercial real estate – from retail and office to warehouse and manufacturing space. Locally based retailers such as Pier 1 Imports Inc. and Rent-A-Center Inc. have said they're looking at rent reductions or terminations on leases for hundreds of stores.

"Everyone out there is trying to cut costs, and typically the rental cost is second to people," said Larry Toon, who represents large office tenants for Jones Lang LaSalle in Dallas. "It makes sense for the landlords to try to settle this early."

Some tenants are using bankruptcy and early lease termination clauses as leverage for lower rent. They're requesting offset rights – an agreement that states, for example, that if a landlord can't deliver on \$500,000 promised for tenant improvements, that amount can be deducted from the tenant's rent. Tenants also are getting free rent, downsizing their space, renegotiating lease terms and receiving more tenant improvement allowances.

It's simple: As businesses lay off more people, they don't need as much space.

"There's too much space coming on the market, and there are layoffs," said Matt Heidelbaugh, an office broker for Cushman & Wakefield of Texas. "Job growth drives our business, let's face it."

Some landlords are rushing to renew leases early – up to four years early – to keep tenants amid increasing vacancies. Others are offering help early, but they want to review the tenant's balance sheet.

Dallas-based retail property manager Cencor Realty Services is addressing potential problems. A team meets for two days a month to scrutinize each shopping center and retail tenants' sales and financial statements, said chief executive Herb Weitzman. It also will help arrange financing for some tenants and help others sell their business, he said.

"We want to help keep these tenants alive," Weitzman said. "We learned in the '80s and '90s what it cost – we burned up so much money."

Here's a snapshot of three commercial real estate areas:

Retail

Amid falling retail sales and a forecast for record-high retail vacancies, landlords want to keep the tenants they have. Last month, Fort Worth-based Pier 1 said it would cut jobs and close up to 125 stores if efforts to reduce rent fail.

The amount of rent reduction available depends on the tenant, its location in a shopping center and its credit rating, Weitzman said. Say a tenant is three months behind on rent; Cencor might extend the lease by three months, he said.

U.S. retail rents fell 16 percent in the past year, based on a survey by the International Council of Shopping Centers.

Industrial

Transwestern has worked on rent reductions for some corporate headquarters, distribution and manufacturing space, said Sharon Morrison, a principal of the Dallas industrial group. Betting it would be tough to rent the space of a tenant that wanted to downsize, a landlord cut rent by 75 percent for a year, she said.

Another tenant wants to extend its lease for less space, but the landlord isn't inclined to go along because the lease doesn't expire for 2-1/2 years, Morrison said.

Office

"With [office] vacancies above 20 percent, we'll see pressure on leases, and we'll see downward pressure on rental rates," Toon said.

Phil Puckett, a top broker for CB Richard Ellis in Dallas, said he recently watched the asking rent for North Dallas office space drop \$4 per square foot in three weeks.