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Lease renewals are biggest game in town

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SPECIAL TO THE GAZETTE

When Lockheed Martin renewed for 230,000 square feet in a pair of Rockville office buildings in the second quarter of 2008, the Bethesda defense and information technology giant made news with the quarter's biggest lease deal in the Maryland suburbs.

The fact that Lockheed Martin set the pace in Prince George's County during the second quarter of this year with only a 68,383-square-foot extension speaks volumes about the lackluster state of the region's commercial real estate and its investors.

Increasingly, actual rent paid is far below asking rates in the region, Cushman & Wakefield said in its latest quarterly report.

"Actual rents on deals signed during the quarter were 10 percent to 15 percent below face rents, and higher declines for challenged buildings/submarkets," the study said.

Even in top submarkets such as the Bethesda-Chevy Chase corridor, landlords in trophy buildings are negotiating deals favorable to renters. That includes Bethesda real estate information company CoStar Group, which Cushman reported is seeking rent in the range of \$45 per square foot at the new 7501 Wisconsin Ave., down from the \$50 asking price of last year.

The story is much the same in Baltimore and even its suburbs that were formerly hotbeds of development. The I-83 corridor including Owings Mills has been one of the fastest-growing sectors in the Greater Baltimore market but investment activity there has halted as tenants look to stay put and make better deals.

"Activity in the Corridor remains light, and is dominated by renewals," economist Anirban Basu wrote in his first quarter report for Mackenzie Commercial real estate services.

The weak hand held by landlords at the moment — and probably for the next two years or more — underscores the chance for tenants to strike more favorable deals on rent, amenities and other concessions when renewal time rolls around.

"Some companies with strong financials [are] viewing the soft real estate market as an opportunity to renegotiate or move and lock in very favorable rates and concessions," wrote Whitney Nye, a Cushman senior associate.

CB Richard Ellis described a bit of desperation setting in for some landlords during the second quarter, as the average asking rate for rent in the Maryland suburbs fell to \$26.53 per square foot from \$27.30 in the first quarter.

"Landlords will continue to face pressures to complete transactions in light of



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Grosvenor, an international developer in London with an office in Washington, D.C., has invested \$35 million in converting a former Holiday Inn into a new 226-room Courtyard by Marriott hotel in a posh Chevy Chase area. Three blocks from the Friendship Heights Metro station, amenities include being "surrounded by upscale shops such as Saks Jandel, Saks Fifth Avenue, Brooks Brothers, Bloomingdales, and Neiman Marcus," according to Grosvenor.

the increased number of empty buildings in the marketplace. Concession packages remained at an all-time high yet experienced a shift in composition, as free rent became a smaller portion of the package," the company reported.

Renegotiations spawn new specialists

With the increased emphasis on tenants seeking better terms, some commercial real estate veterans are beginning to specialize in negotiations with landlords.

Green Light Retail has formed Green Light Advisors in Bethesda to help assist landlords and tenants with the increased number of lease renegotiations.

"A lot of area retailers need some assistance with their occupancy costs but getting the attention of the landlord is sometimes difficult," said Peter Framson, a Green Light principal.

A recent Green Light survey of retail landlords and tenants indicated that the time spent renegotiating leases has more than doubled in 2009 from 2008, with almost 50 percent spending more than 10 hours a week on renegotiations. Almost 33 percent are worried that lease renegotiations are creating ill will; and almost 70 percent said renegotiations take away from primary business.

"We have seen a lot of growth with this niche. We've done a lot of these deals because there's a tremendous amount of interest in this right now," said Andrew Nadler, principal of Summit Strategies of Potomac. "Landlords are now having a challenging time finding retailers to take vacant space, so we're here to facilitate

amicable lease restructuring. It's big now, but the need for this doesn't always just occur in down economies — it also occurs in up markets."

Science City plan gets planning board OK

The Montgomery County Planning Board has signed off on a multidecade blueprint that roughly triples development and employment in a 900-acre area in the state's largest node of biotech research. The board, however, conceded that the plan comes up short of the high-minded "Science City" that had been envisioned more than a year ago.

With some tweaks Thursday morning to emphasize the importance of breaking the development into phases, board members finalized their version of the Gaithersburg West master plan in a 4-1 vote, which increases development in the Shady Grove Life Sciences Center from 6.9 million square feet to 20 million square feet, raises the housing from nearly 3,300 to more than 9,000 units, and boosts expected jobs from 21,000 to 60,000.

"This is a defining moment for the I-270 corridor," said David McDonough, senior director, development oversight with Johns Hopkins Real Estate. "The scope we had requested going in for our Belward campus was scaled back, but overall this is a visionary plan that will help transform the area around Shady Grove Road from what is now an auto-dependent commercial center into a vibrant transit-oriented science-based community with more parks and open space for

our neighbors to enjoy."

The master plan will now go to County Executive Isiah Leggett (D) for comments before heading to the county council in the fall for a public hearing and possible approval.

Baltimore's Senate Theater goes on auction block

Baltimore's art deco Senate Theater goes on the auction block Wednesday, with the city's development agency setting a minimum bid of \$1 million.

The north Baltimore property, a longtime draw for art house film fans, was acquired by Baltimore Development Corp. in May after its owner defaulted on a \$900,000 loan to 1st Mariner Bank.

The 20,500-square-foot theater, built in 1939, has been listed on the Register of Historic Places since 1989. Sitting at 5905-5906 York Road in the Belvedere neighborhood, the theater is far removed from Baltimore's Inner Harbor and surrounding areas favored by city development officials. The Ambassador, a sister theater uptown erected by the same builder, failed to meet its owner's \$120,000 minimum bid during an auction July 9.

Baltimore officials have said that if no buyer is found for the Senator, the city would maintain ownership and seek a developer or operator to maintain it as a center for education and performing arts.

Frederick hotels fetch \$10.3M

Hersha Hospitality Trust, a real estate investment trust in Philadelphia, has sold two hotels in Frederick for \$10.3 million to an undisclosed buyer. The Mainstay Suites and Comfort Inn, both brands of Choice Hotels International of Silver Spring, have a total of 145 rooms.

"As part of our strategy to opportunistically recycle capital, we have implemented a plan to explore the sale of certain non-core brands and assets in locations that we believe have less opportunity for growth in the future," said Hersha CEO Jay H. Shah in a statement. Hersha owns interests in 75 hotels totaling 9,562 rooms, primarily from Boston to Washington, D.C.

Staff Writer Sebastian Montes contributed to this report.

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