



## Tenant Strategies in the Changing Market

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As a veteran real estate advisor for over 25 years I have experienced and survived several down markets. The good news is that all markets are cyclical and bad markets turn into good markets. It just takes time for the recovery to happen and as we all are aware with our current worldwide recession it is taking longer than we all want to admit. So how should prudent real estate and senior executives plan for the next few years? Companies must change and adapt to take advantage and be positioned to move forward and navigate with the new dynamics that have been created.

On a business front companies will need to look deep into their business units to determine what changes must be made to create trust and confidence from their respective client base. This will involve reaching out to employees within all levels of the company to study and create plans that involve changes in vision, corporate responsibility, technology, workplace strategies, and innovation through a collaborative team approach. Creating plans that allow companies to adjust and react that are well positioned for creative implementation will set them apart.

On the real estate front, we can also look at creating plans that incorporate the same steps as described above but are focused within the operating and functional assets of the company. It is very easy to do nothing with uncertainty looming and decision making being stalled. In my mind, this is the opportune time to review all facets of your real estate decisions and the processes and protocols that are in place. When the market was tight and the economy thriving most decisions became reactive and timing to get deals done were vital for the local business units. As we have moved from short timelines for decisions to no decisions, it is much easier to stand back and truly look at where strategy was missed and good solid process went into the back seat.

For companies with larger portfolios it is vital to get a strong understanding of how the real estate will also work

**Consumer Price Index (CPI-U):**

-0.2% in May 2010  
-0.1% in Apr. 2010  
+0.1% in Mar. 2010

Source: [www.bls.gov](http://www.bls.gov)

**Unemployment Rate:**

9.5% in Jun. 2010  
9.7% in May 2010  
9.9% in Apr. 2010

Source: [www.bls.gov](http://www.bls.gov)

**The Fed (U.S.) Prime Rate:**

3.25% June 23, 2010  
(The Current U.S. prime rate)  
3.25% Dec. 16, 2009  
4.00% Oct. 29, 2008

Source: [www.wsjprimerate.us](http://www.wsjprimerate.us)

within the company's operating strategies. I think this is the first step in the larger picture of portfolio optimization and creating longer term planning. We are constantly seeing companies change their workplace standards and this immediately affects their real estate. Consolidation of space to fit the "new" standards will immediately create more efficiency but it will also create employee morale issues. On the other side creative offsite and virtual work environments have become very favorable to many employees that have long commutes and or family issues. Bridging the gap between efficiency and true increased productivity is the best of both worlds and that is the big challenge in today's environment of corporate mandates to reduce the total square footage platform while also creating the optimal workplace environment.

Diving into your portfolio and forensically reviewing your real estate involves time, planning and a strong team to assist the process. This is something that should create immediate cost savings with many hidden opportunities that a spreadsheet and or a lease administration program can't determine. It is also something prudent with the changing ownerships and lending issues looming in the next 12-18 months. It is our experience to find upwards of 20% portfolio savings on lease restructures, termination of excess space, and equity positions that add value to ownership. This involves site by site studies of the existing leases, space utilization, market conditions, ownership position and lastly the debt position.

Our consulting and advisory groups can assist with any and all of the issues described in this issue. Now is the time to plan for the upcoming changes and to be positioned to move forward on a strategic basis once the economy and market conditions lend themselves to growth.

OFFICE MARKET – SECOND QUARTER 2010

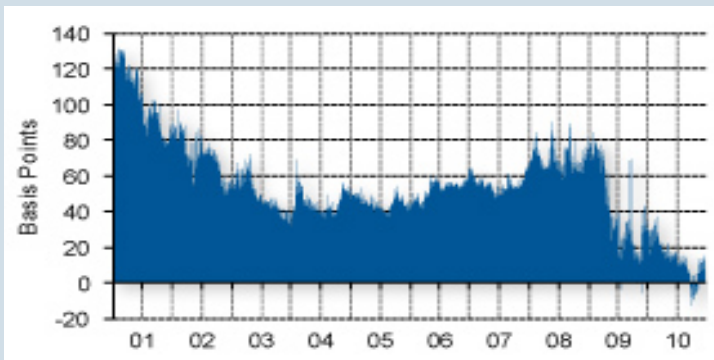
Market	Class A Vacancy %	Class A Asking Rents	Total Net Absorption
Atlanta	23.1%	\$23.28	184,644
Boca Raton	25.2%	\$32.51	(6,594)
Boston	14.5%	\$36.14	(142,474)
Chicago	20.8%	\$29.49	72,322
Columbus	15.4%	\$19.30	N/A
Dallas	22.4%	\$23.55	(95,339)
Denver	17.2%	\$23.50	869,904
Detroit	21.0%	\$22.07	(37,351)
Houston	15.2%	\$29.40	237,376
Los Angeles County	16.6%	\$36.12	(135,500)
Miami	24.6%	\$37.52	83,619
New York – Midtown	9.6%	\$69.17	800,673
New York – Downtown	11.3%	\$45.72	(665,457)
Oakland	21.6%	\$27.96	(408,915)
Orange County	21.0%	\$27.60	(260,520)
Philadelphia	14.0%	\$28.12	(135,460)
Phoenix	28.0%	\$25.32	(197,239)
Portland	15.6%	\$24.00	(65,540)
San Antonio	15.7%	\$25.97	121,002
San Diego	22.0%	\$31.68	263,899
San Francisco	15.4%	\$31.94	(401,949)
San Jose	26.9%	\$33.48	(68,837)
Overall U.S. Market	18.0%	\$31.24	(2,690,000)

Vacancy: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop. Net Absorption: The net change in physically occupied space over a period of time.

For more information on the Tenant Advisory Group or how we might assist your organization

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10 - Year Swap Spread

The 10-year swap spread is one of the more esoteric indicators that have been in the news recently. In an editorial on Friday in The Wall Street Journal, former Federal Reserve Chairman Alan Greenspan said the 10-year swap spread, which turned negative for a few days in March and remains very narrow, suggests a limit to the borrowing (and spending) capacity of the U.S. government. It is the difference between the yield on the 10-year Treasury note and the fixed interest rate that a private party such as a bank or corporation requires from another private party (the counterparty) in exchange for a series of floating-rate payments. The swap agreement lets one party eliminate interest rate risk while the counterparty gets a stream of fixed-rate payments. According to Chairman Greenspan and some other analysts, a negative 10-year swap spread indicates that bond investors would rather put their money in private corporate debt than in government debt with the same maturity, presumably because they think the private debt issuer has less risk of default than the debt-ridden U.S. government. However, there are other ways to interpret a negative swap spread. For example strong demand for corporate debt combined with a belief that inflation and, therefore, long-term interest rates will remain low, would encourage investors to accept lower fixed interest rates. An increased appetite for risk is apparent in commercial real estate as well as in the bond market. Over the past few months, real estate investors have driven prices up and cap rates down for core assets in particular, i.e. Class A properties in primary, supply-constrained markets.

Source: Federal Reserve, Grubb & Ellis



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