

Renewal commissions grow in tenant's market

By Adam Pincus

Office building owners struggling to retain their tenants in the weak economy are more likely to pay a full broker's commission on a renewal lease compared to a year ago, landlords said.

Peter Braus, executive vice president and principal at property owner and manager Sierra Realty, said tenant brokers have more leverage in the commercial leasing market today as vacancy rates rise and new tenants are hard to find.

A tenant's broker is "going to be holding a lot of cards with the landlord," he said. "The landlord is at a disadvantage. If he doesn't agree to pay a full commission, he is looking at the possibility of the broker taking the tenant elsewhere purely to receive a full commission."

In a more traditional leasing environments, landlords rarely paid full commissions on renewal leases, brokers and landlords said. Full commissions of about 5 percent for the first year, scaling down over the lease terms, were generally paid only on new leases. In general, landlords either paid half a commission or no commission for a renewal lease, although some landlords always pay full commissions on renewal leases.

But as availability rates have soared, from 7.9 percent in December 2007 to 11.3 percent in December 2008, according to CB Richard Ellis, tenant brokers have more leverage to threaten to take a tenant to another building.

One Manhattan landlord, who asked not to be identified, said his company paid a full commission on a renewal lease signed in December for a space in a 200,000-square-foot building a block from Penn Station.

The landlord, who would normally pay a half-commission on a renewal, paid a full commission out of "fear the tenant would be moved to another building," the landlord said.

Abraham Hidary, president of property owner Hidrock Real Estate, said he would be more open to paying a tenant-broker fee on a renewal.

"A year ago I would have thought twice. For myself, certainly a year ago we might not have. We feel in this market it makes sense to work with the tenant's broker," he said.

But some property owners don't think commission changes are in response to current economic conditions.

David Berley, chairman of the board and managing partner at property manager Walter & Samuels, said over the past several years more tenant brokers were seeking commissions, but he did not believe that growth was related to the recent economic decline. He said he pays tenant brokers only on a case-by-case basis.

"It is not what I am used to, but if it is an important tenant and I want to keep him, I am happy" to pay the commission, he said.
