

## TI concessions bring in lessees during tough economic times

By THOR KAMBAN BIBERMAN  
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Free rent isn't the only type of concession given to commercial tenants — tenant improvement allowances may be large or small these days depending on the asset class, the lessee's clout and whether or not the landlord can afford the improvements.

Bill Thaxton, a **Flocke & Avoyer** senior vice president whose company specializes in retail spaces, said along with some form of rent relief, the current going rate for tenant improvement allotments depends on what's needed.

"If you are looking at what is referred to as a 'raw shell' condition (largely free of interior improvements), it can be up to \$30 per square foot depending on the user," Thaxton said.

If, on the other hand, the space is in what is called a "vanilla shell" condition, the per-square-foot allotment drops to about \$10. Vanilla shell spaces generally include dry-wall, perhaps a restroom and partially or fully complete HVAC, electrical connections and plumbing, and a dropped ceiling.

Thaxton said retail tenant improvement allowances seemed to bottom out during the first and second quarter of last year and have edged up since then.

Zack Swinscoe, a **Colliers International** senior vice president, said whether there are TI allowances "depends on whether or not the owners of the shopping centers have the money for tenant improvements."

"The amount of TI dollars goes all over the board," Swinscoe continued.

The TI improvement, if offered, may be as little as \$5 or as much as \$30 per square foot for highly specialized spaces such as urgent care clinics that may not be thought of as being retail at all, Swinscoe said.

"We are in negotiations on several locations for **Doctors Express**," Swinscoe said, adding that the medical provider's demands are for a \$30 TI allowance to go with its 10-year leases.

Joe Yetter, a retail broker with **Cassidy Turley BRE Commercial**, said he is seeing \$5 to \$10 tenant improvement allowances for most newer retail spaces. Yetter didn't offer particulars, but said he is working a deal on a gym where a landlord will have to spend \$50,000 before the tenant agrees to the space.

"That space wouldn't have warranted a dollar three years ago," Yetter said.

Geography is also a major factor on how much in TI allowance needs to be provided to prospective retail tenants, he said.

"In the East County, such as in Santee and El Cajon, you have to be more creative. You also may need more incentives in Chula Vista," Yetter said.

While second-generation space typically isn't receiving tenant improvement allowances, this doesn't mean that improvements aren't necessary.

For example, Yetter cited cases where former Hollywood Video and Pier 1 stores are being divided up into three, four and even five spaces.

The good news for landlords is both the material and labor costs for tenant improvements have come down significantly during the past 2 1/2 years.

Jay Alexander, a **Jones Lang LaSalle** managing director, said TI allowances on office space that were \$60 per square foot three years ago are closer to \$45 today.

"There are still comps out there at \$70 to \$80 for specialty space, but they aren't the norm," Alexander said.

Stacy Meronoff, a **CB Richard Ellis** senior associate who specializes in office space, said while the lower material and labor costs have helped the landlord, this has been offset by the lower rents they must charge to get people into their buildings.

"If the rent goes from \$2.50 to \$2 and the tenant wants a \$50 TI allowance, it doesn't make much sense for the landlord," Meronoff

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said. "It actually might make more sense to let it be vacant for a while."

Alexander said there isn't much in the way of TI allowances when it comes to pure industrial space.

"You might get two or three bucks for carpet and paint but that's about it," Alexander said.

"It's more unusual for TI allowances to be offered on industrial space," agreed Jim Spain, a **Colliers International** regional managing director.

Alexander and Spain also agreed that the tenant improvement allowances on

research and development space can vary widely according to location and the quality of the space.

"If you're a tenant and it's dysfunctional space, you may be able to get a TI allowance if the landlord has it. Every deal is different," Alexander said.

Rob Merkin, a **CB Richard Ellis** senior vice president, said while R&D tenants may expect a \$25 to \$35 per square foot tenant improvement allowance, "that's a huge capital outlay for a landlord right now."

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