



## Planning specialty buildings for any market: Not for every landlord

May 22, 2009 - Spotlights

With Manhattan's office market at 12% vacancy and the lending markets still troubled, there has never been a better time for landlords to explore alternative business models. Landlords who are looking for long-term solutions to lease office buildings should consider creating specialty buildings, which is a safe strategy in both up and down markets.

Drawing tenants from a need rather than a want, specialty buildings stand out in the marketplace because they have an identity and in turn help to create the identity of the tenants that reside in them. Through leadership positioning, smaller companies will often follow a larger industry leader to a location which allows for cross-marketing between similar companies that are then able to boost overall business.

From the landlord's perspective, converting a building to a specialty building helps to distinguish a property and generate demand. From a tenant's perspective, specialty buildings offer the most value because they are a destination for industry buyers.

Specialty buildings are definitely not for every landlord. These destination properties take years of planning and the will power to pass up the highest rent in a boom market to maintain the character of the building. The payoff is that in a challenging market like the current one we are in, tenants will have a need to be in a destination building to stay competitive in their industry. This unique need ensures that specialty buildings outperform the market in tough times. Adams & Co.'s specialty buildings are all nearly 100% occupied to date.

When creating a specialty building, landlords should choose a specific market that is not too broad. For example, apparel might be too general. It would be better to pinpoint a sub-market of apparel such as children's clothing or women's accessories.

The way to identify an industry that is well-suited for a specialty building is to evaluate the marketplace and find a need. The menswear industry is a great example of an industry that benefited from specialty buildings. Years ago, high-end, tailored menswear showrooms were based in Midtown in the '50s. All other types of menswear companies were scattered around the Empire State Building. After studying and observing the menswear market, Adams & Co. created two menswear centers at 42 W. 39th St. and 1071 Ave. of the Americas, which brought together Manhattan's menswear businesses in centralized locations.

When transforming a building to specialty use, it is a good idea to start floor by floor. After creating one model floor, the next floor should keep in line with the character of the initial model floor. While it is important to create generic showroom and office space with features such as high ceilings, wood floors and track lighting, landlords should also keep in mind how different industries use space. For example, menswear companies perform most presentations in conference rooms while women's apparel companies prefer loft-like, open space for buyer presentations. The floor-by-floor process

can often take years to complete, but the result is targeted, pre-built space which becomes particularly attractive in a tenants market where move-in-ready space is the preference.

The most important aspects of leasing up a specialty building is to maintain the character of the building and consistent prices. There have been many instances where we will not show a particular space to tenants outside of the specialty industry of the property. In regard to price, landlords must be committed to maintaining stable prices, so that tenants are not forced to move and scatter. Maintaining the specialty character has to remain the priority.

Another effective leasing strategy when starting a specialty building is to take a "loss leader." Giving a big-name company an extra yard to move them into a specialty building will often result in other smaller companies following. Particularly in fashion, small companies benefit from the buyer draw of a larger company. Buyers save time by visiting multiple vendors in the same location.

Once a specialty building has been established, perhaps the most important support a landlord can give is to foster community and growth within tenants' industries. Last year, a collective of showrooms in the Contemporary Fashion Center located at 231 W. 39th St. came together to host fashion buyers from around the country in what has become the first market week in New York City's historic Fashion District in over 20 years. The success of SHOP231, which drew over 150 buyers in three days, spurred the interest of neighboring buildings to become SHOP100eighteen and continues to grow.

Originally started by five individuals and Adams & Co. to bring buyers back into the showrooms and reinvigorate the Fashion District, SHOP100eighteen is a fantastic example of the long-term potential of a mature specialty building where the landlord/tenant relationship becomes a mutually beneficial partnership.

While specialty buildings are not the answer for all businesses or landlords, we have seen a renewed interest in the building model, which has taken us back to our consulting roots. For those landlords and building owners interested in a long-term, sustainable office leasing strategy, specialty buildings will always be a viable option. Landlords that commit to specialty properties may not be able to demand outrageous rents, but in tough times they will not only survive but reap the benefits of long-term planning.

Jeffrey Schwartz is senior managing director for Adams & Co. Real Estate, LLC, New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540