

# Subleasing booms as tenants dump offices on Dallas market

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The sagging economy has left companies with a growing amount of office space they don't need.

Almost 4.3 million square feet of surplus office space is being offered for sublease in the Dallas-Fort Worth area. More than 2 million square feet -- enough to fill two downtown skyscrapers -- is empty, according to real estate broker Cushman & Wakefield Inc.

"Our team now has more than 30 of these we are working on right now," said Matt Heidelbaugh, a senior director with Cushman & Wakefield. He says he expects 1 million square feet or so of sublease office space to be added to the leasing market this year.

For businesses that need office space quick, the large volume of unused office space can be a windfall, real estate brokers say.

"These people want the expense of this excess office space off their books," said Tim Terrell of Stream Realty Partners. "I think the trend is going to continue for at least the next 18 to 24 months."

Terrell just did a lease with a small law firm that took office space left by a mortgage company.

"From the time they called me till the time the new tenant moved in was 30 to 45 days," he said. "There's almost four years left on the lease.

"We got a nice discount off the market and plug-and-play space."

How much is sublease space going for?

"In today's market, we consider a sublease a success if we can recover 50 percent of the tenant's remaining lease obligation," said Cushman & Wakefield executive director Greg Biggs.

Biggs just subleased a full floor of office space on LBJ Freeway to a financial services firm. The primary tenant, a real estate company, was consolidating and paying for offices it wasn't using.

"The rent for the subtenant was about a 40 percent discount from what the building was quoting for a direct lease," he said.

## Cut-rate deals

As companies get desperate, some are cutting even better deals.

IT firm Collabera Inc. just subleased offices in Irving from a homebuilder. Broker Kyle Jacobs of Stream Realty said Collabera paid a cut rate and got five months of free rent.

"Sublessors are betting on the sure thing by offering aggressive concessions on the front end as opposed to holding out on the market and forgoing the potential rent income," Jacobs said.

These kinds of breaks can be a godsend for new or small businesses that don't want to commit to long-term leases.

"I have done three sublease deals this year in the Preston Park Financial Center in Plano," said Matt Hurlbut, a principal in Transwestern's Dallas office. "The spaces were subleased to relatively young companies [that] wanted to occupy space quickly at low rates with furniture.

"The lease rates were 50 percent to 60 percent off," he said.

Lots of second-hand office space comes with workstations, phones and other office fixtures -- another attraction to renters, he said.

"I have one nice sublease space with almost brand-new furniture and finishes," Hurlbut said. "But the tenant I found doesn't want any of it, and it will be gutted."

## **Warnings**

Some of the biggest concentrations of sublease space are in downtown Dallas, with almost 900,000 square feet, Las Colinas and the Uptown-Turtle Creek area.

Businesses that decide to lease hand-me-down offices should know that there are risks.

"The sublessor is your landlord -- if they default, you are at risk of having to lease or vacate the space at the primary landlord's discretion," Biggs said.

Usually the offices are offered as is. And sometimes the building owner isn't keen on getting a new tenant he didn't choose.

"Property management doesn't always give a subtenant the same respect," Biggs said.

While the amount of sublease office space that's being offered in the D-FW area is high, it doesn't match what the market saw here during the tech sector crash in the early 2000s. Back in 2002, more than 10 million square feet of sublease space was being tracked in Dallas-Fort Worth.

"The Dallas market seems to be more diversified than it was at that time, and landlords have not been as speculative on leases as they were back then," Biggs said. "I do think that more sublease space will come online if the economy continues to slide and business continues to struggle.

"But hopefully it won't get to those dot-com levels."