Small to midsized firms have their choice of deluxe D.C. sublets in the sky

Washington Business Journal - by Sarah Krouse, Date: Friday, February 25, 2011

When **Douglas Husid** realized that his law firm, **Goulston & Storrs PC**, had already stretched out as far as its K Street office allowed, the co-managing director began looking at D.C.'s power strip for a new home.

Months later, Goulston became one of the latest tenants to cut an aggressive deal in D.C.'s subleasing market, taking 21,500 square feet originally allotted to Mayer Brown LLP at 1999 K St. NW.

Mayer Brown, a tenant in the 243,000-square-foot glass building for 15 years, realized — as did many firms during a tanking economy — that it did not need quite that much space. In one swipe, Goulston removed from the market higher-end space that had been pining for a subtenant for nearly two years — and got it at a lower rate than the firm was paying at its old 2001 K St. NW digs.

"There were lots of opportunities," says Husid. The firm, he adds, was "in the market at a good time."

Goulston's good fortune is just a small portion of 1.4 million square feet of sublet space available in D.C. So more deals like Goulston's are out there for the taking. But getting a good sublease deal is a bit like matchmaking — the size, lease term, timing and price have to fit just right.

Such deals come with some stipulations: The length of the sublets tend to be shorter than the primary leases, so subtenants must be able to move or sign their leases at the end of often one- to seven-year terms — if there's space available.

“These aren’t clean transactions,” says Scott Homa**,** research manager at Jones Lang LaSalle Inc. “But there is an immediate cost savings and a lot of benefits.”

The amount of sublet space is shrinking from historic highs of 2.3 million square feet in 2003 and 2 million square feet at the end of 2009, but small to midsize tenants are still landing huge discounts — more than 30 percent in some buildings. That’s because of the dearth of smaller businesses on the market and the length of time the free space has languished without a tenant to call it home.

“The market is just saturated among small to midsized blocks,” Homa says. “And the demand is light for it.”

Law firm spaces have loitered on the market for an average 11 months, according to Jones Lang LaSalle.

Mayer Brown’s asking rent for its available space was $59 per square foot. But the Goulston deal closed in the low-$50s per square foot under a full-service lease, which means Mayer Brown will also cover the subtenant’s tax, insurance and operations costs.

The lack of demand for midsized space means the local market has a long way to go before returning to its all-time low of 752,000 square feet of available space in 2007.

“Even if the amount of space available has declined, there’s still so much of it out there,” says Wendy Feldman Block, managing director at Studley Inc.

Feldman Block has probably seen much of that space herself. She says when she’s out with tenants hunting in the 5,000- to 20,000-square-foot range, she gets bombarded by sublessors trying to woo her to their buildings with unsolicited offers.

While a subtenant won’t headline a building, it can still benefit from the brand boost that comes with already lavishly furnished spaces, a perk that often translates into a better build-out than a small tenant could afford if it signed a lease directly with the landlord.

Under an average deal, subtenants take space as-is with four to six months of rent abatement and a 4 percent annual escalation. For space not built out, the offers sometimes come with concession packages that include up to nine months of free rent and $45 per square foot worth of tenant-improvement allowances, according to Jones Lang LaSalle.