

What Office Landlords Spend on Amenities to Draw Tenants

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Office landlords are laying out real money and trading valuable floor space to include doggy day cares, golf simulators and other features to entice quality tenants

...The amenities arms race started before the coronavirus was a part of our shared vocabulary, but the pandemic has brought it into sharper relief. The actual cost of

lures for office workers — like a putting green or a parking subsidy — is fairly low for landlords and tenants alike, but the cost of potential lost rent on the space itself is far from negligible.

One such example is the real estate firm that opened a dog day care for its tenants — in direct response to the pandemic puppy boom, where people rushed to find furry friends in the absence of human ones. (It's worth noting that not everyone kept their new pets, and shelters struggled to take in a higher number of cats and dogs last year.)

For those that didn't give up their new dogs for adoption, the firm had a solution: 2,000 square feet of previously unused space transformed into a place for dogs with a hired caretaker that watches about 12 to 15 pups for six hours a day.

The company is a client of Robert Gilman, the co-leader of the real estate services group at the accounting advisory firm Anchin, who couldn't identify his customers but shared specifics on their spending habits. Gilman advises property owners in Manhattan and the tri-state area in the office, multifamily, studio and storage sectors, and has several clients giving the amenity game a shot.

The canine day care facility cost about \$20,000 to install, including with renovations to the space and supplies like cages and fences, and about \$300 a day to staff, Gilman said. To a large corporation, dropping \$20,000 on rent and \$100,000 or so on staffing costs for the year, while not insignificant, is not a huge expense. For example, Prologis, which holds a 1 billion-square-foot portfolio, spent between \$300 million and \$315 million on general and administrative expenses, according to public disclosures, and SL Green Realty Corp. spent \$747 million in 2021 for all of the firm's expenses and nearly \$100 million on marketing and administrative costs.

But what landlords lose when a firm adds an amenity space is the potential income from renters. Gilman gave the example of 5 Times Square — not one of his clients, but an RXR property with a 48,000-square-foot amenity floor equipped with fitness center, lecture hall, restaurant and lounge. The real estate giant spent \$50 million renovating the amenity space, lobby, elevators and more in 2020. With asking rents in a recent deal there for Roku in the \$90s per square foot, the cost of such a large amenity floor is far from negligible.

Even if RXR charged just \$50 per square foot for the floor, the firm could rake in more than \$2 million per year in renting out the space. But firms with large amenity spaces like RXR's are likely pulling in at least \$20 to \$30 per square foot more thanks to its amenity spaces, according to Richard Jantz, executive managing director of project and development services at Cushman & Wakefield.

"I couldn't even tell you what 5 Times Square spent on their amenity space," Gilman said. "They must have spent several million dollars, but remember, they also have conference room space, which was part of their hook to get people in there."

With higher-quality, amenity-ridden space being the clear winner of the pandemic-stricken office market, property owners may be forced to invest in perks just to get someone to sign on the dotted line.

"Twenty or \$30,000 — that you could always find in a deal," Gilman said. "It's not like [knocking] out a floor that you're going to rent and do a full amenity space, so not only are you spending a couple of million dollars but you're losing that rent."

Of course there are other, less expensive ways to get people in the door without sacrificing so much rentable space. Another one of Gilman's landlord clients is considering buying a golf simulator for about \$35,000, which takes up only around 200 to 500 square feet.

Another of Gilman's clients installed a miniature cafe, where ownership purchases about \$500 of sandwiches per day from a local deli and then sells the food to tenants. The one-time cost of the installation was only a few hundred dollars and the firm only loses another few hundred on the sandwiches it fails to sell each day. All in all, Gilman said, it's a fairly negligible sum.

Terraces became extremely popular as well — because open-air spaces tend to be safer when it comes to airborne diseases and because rooftops aren't usually selling

space, meaning a landlord isn't losing potential income from renting them. One of Gilman's clients spent around \$40,000 to renovate a rooftop with a new concrete floor and furniture — with no lost rental income.

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