

Morgan Lewis

## Subleasing: A Viable Strategy in an Economic Downturn?

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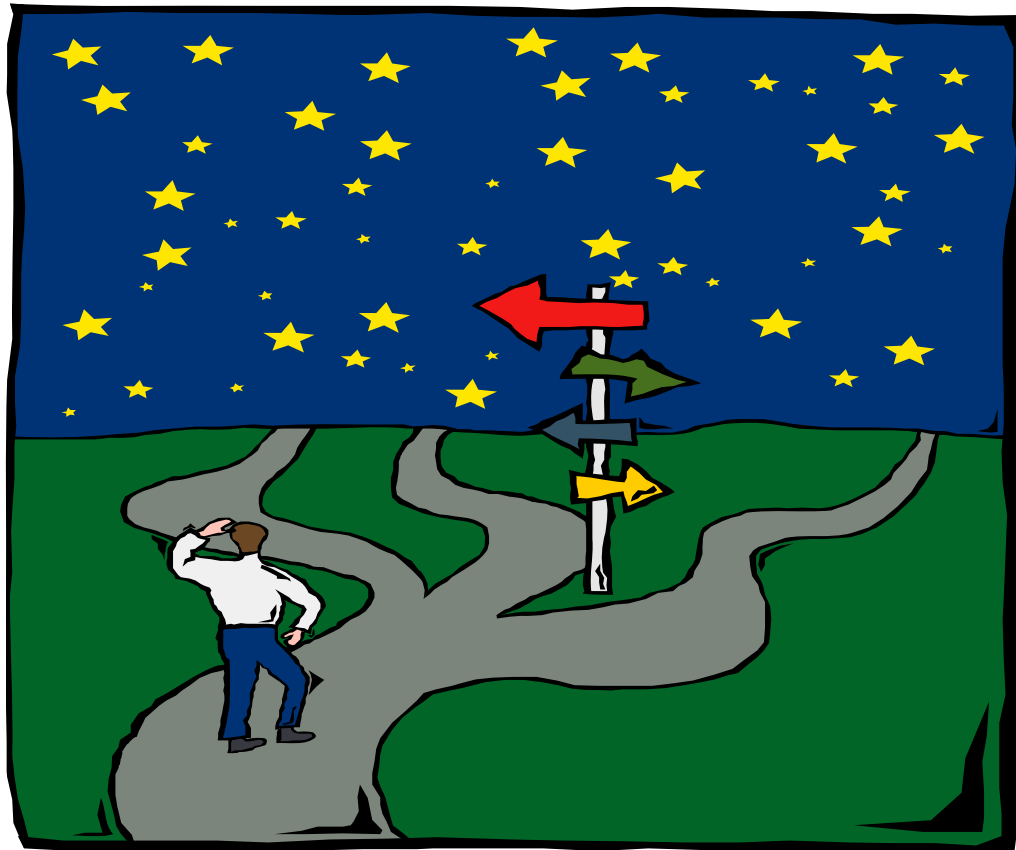
Jones Lang LaSalle

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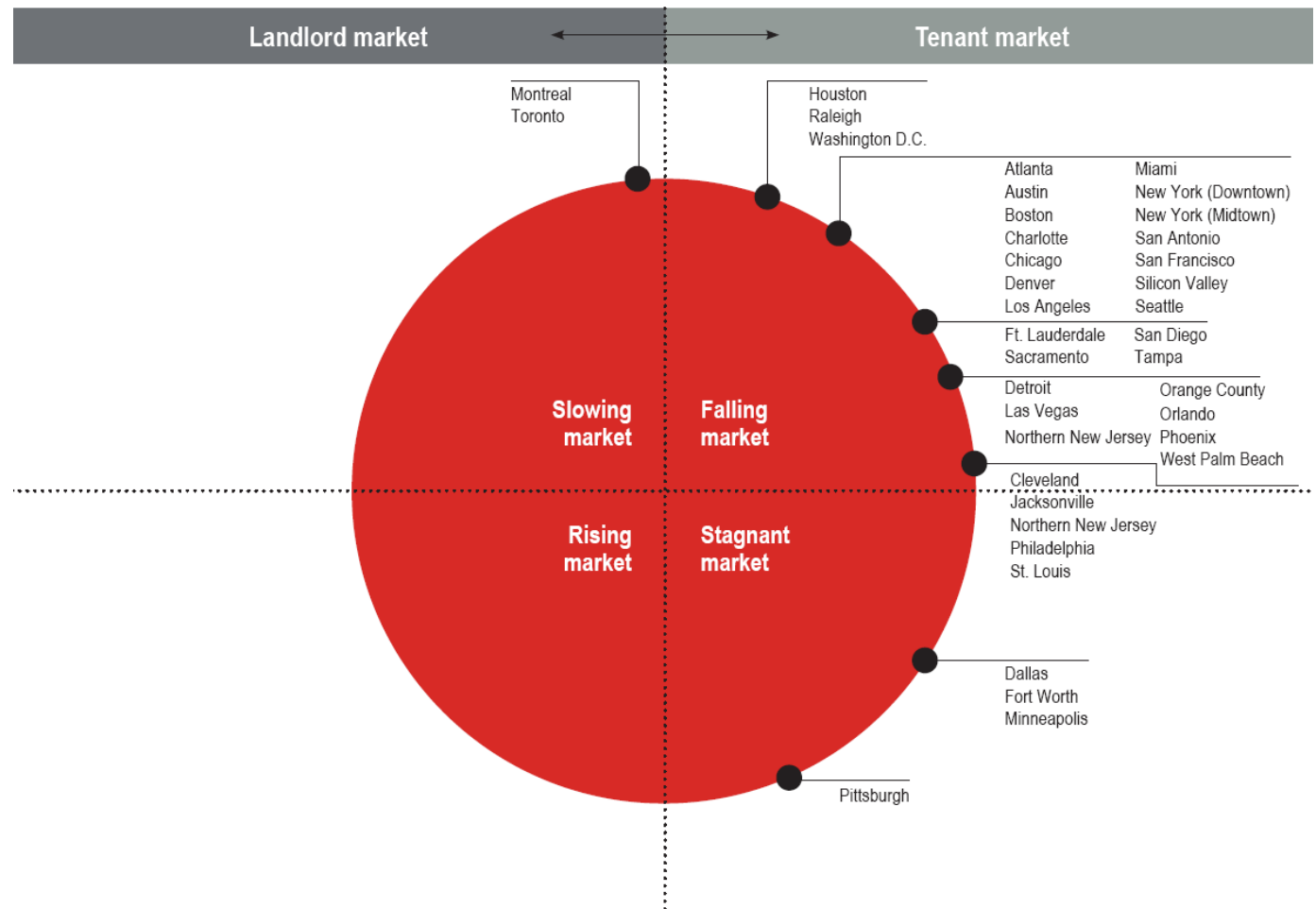


# Market Overview



## Property Clock Q1 2009

*The Jones Lang LaSalle market office clock shows where each market sits within its real estate cycle. Markets generally move clockwise around the clock, with markets on the left side of the clock generally landlord favorable and markets on the right side of the clock generally tenant favorable.*



# Market Overview

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Philadelphia	918,641	2,495,706	1,577,065	171.7%	976,437	1,519,269	155.6%
Fort Lauderdale	99,765	247,215	147,450	147.8%	633,966	-386,751	-61.0%
Phoenix	609,255	1,411,350	802,095	131.7%	1,509,797	-98,447	-6.5%
Orlando	302,000	666,575	364,575	120.7%	709,118	-42,543	-6.0%
Miami	199,478	409,594	210,116	105.3%	1,075,429	-665,835	-61.9%
Charlotte	203,496	389,364	185,868	91.3%	1,085,128	-695,764	-64.1%
Denver	896,391	1,657,643	761,252	84.9%	4,900,597	-3,242,954	-66.2%
Jacksonville	160,524	254,727	94,203	58.7%	145,645	109,082	74.9%
Silicon Valley	976,484	1,537,347	560,863	57.4%	5,851,635	-4,314,288	-73.7%
NYC	8,044,381	12,046,886	4,002,501	49.8%	14,366,608	-2,319,722	-16.1%
Atlanta	2,226,987	3,133,321	906,334	40.7%	5,421,541	-2,288,220	-42.2%
Tampa	548,226	721,841	173,385	31.6%	1,253,956	-532,345	-42.5%
Chicago	4,705,501	5,479,729	774,222	16.5%	8,874,399	-3,394,670	-38.3%
Seattle	1,155,604	1,312,013	156,409	13.5%	4,321,341	-3,009,328	-69.6%
Boston	4,052,303	4,551,024	498,721	12.3%	12,772,033	-8,221,009	-64.4%
Washington, DC	4,113,541	4,600,313	486,767	11.8%	12,170,313	-7,570,000	-62.2%
Los Angeles	2,114,135	2,354,116	239,981	11.4%	6,240,468	-3,886,352	-62.3%
Houston	1,733,245	1,850,873	117,428	6.8%	4,384,496	-2,533,823	-57.8%
Northern New Jersey	6,438,401	6,775,646	337,245	5.2%	9,747,533	-2,971,887	-30.5%
Dallas	2,476,048	2,445,546	-30,502	-1.2%	6,263,552	-3,818,006	-61.0%
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# Market Overview

## Largest US Sublease

77 Water Street  
New York, NY

Lease Expires	2021
Remaining Term	+/- 12 years
Size	612,327 rsf
Floors	26
Sublessor	Goldman Sachs



# Should We Put Our Excess Space Up For Sublease?



# Should We Put Our Excess Space Up For Sublease?

- Alternatives to Subleasing
  - Blend & Extend (with Contraction)
  - Buy-Out
  - Assignment

# Should We Put Our Excess Space Up For Sublease?

- Suitability of Lease for Subletting
  - Sufficient term remaining
  - Ability to create separate space
  - Consent Requirements
  - Recapture

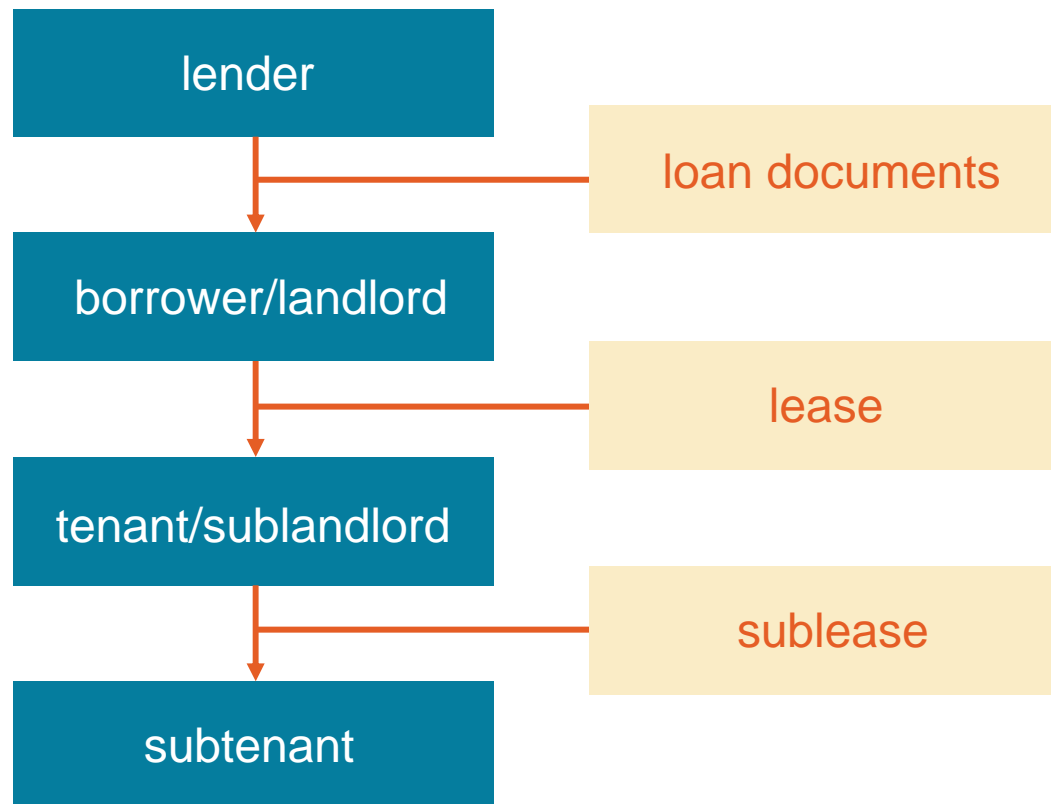
# Should We Put Our Excess Space Up For Sublease?

- Economics of Subletting
  - Brokerage
  - Legal
  - Sharing of revenue with landlord
  - Physical separation of sublease premises (and restoration)
  - Inducement requirements
  - Accounting Impacts

# Okay, We Have Decided to Sublet Our Space. Now What?



# Typical Sublease Structure



# Okay, We Have Decided to Sublet Our Space. Now What?

- Retaining a broker
- Marketing sublease space

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**JONES LANG LASALLE | SUBLEASE AVAILABLE**

### One & Two Hook Road

Affordable sublease  
Office/lab/manufacturing space

**Property highlights:**

- 10,920 s.f. flex space
- Ample parking

**Lease expiration:**

- December 31, 2014

**Rate:**

- Negotiable

**Location:**

- Easy access to I-95 and Philadelphia International Airport

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**JONES LANG LASALLE | SUBLEASE AVAILABLE**

### Great sublease at 5 Tower Bridge

WEST CONSHOHOCKEN, PENNSYLVANIA

**29,245 r.s.f. available June 2009**

**Term thru January 20, 2013**

**Rental Rate**

- Negotiable

**Amenities**

- High end buildout with great views
- Quick access to R6 Regional Rail
- Reserved parking available
- Available for "plug & play"
- Will divide for 20,000 RSF user

Click here for property photos and floor plan.

For more information, please contact:

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**JONES LANG LASALLE | SPACE FOR SUBLEASE**

### Mellon Independence Center 701 Market Street

**Immediate occupancy**

- 6<sup>th</sup> floor – 3,255 r.s.f.
- \$18.00/r.s.f. plus Electric

**JONES LANG LASALLE | SPACE FOR SUBLEASE**

### Mellon Independence Center 6<sup>th</sup> floor – 3,255 r.s.f.

**Property highlights**

- Historic property completely renovated
- Direct concourse access
- Prime downtown Philadelphia location
- Easy access to Septa and NJ Transit

**Leasing contact**

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Real estate is a changing world

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# Okay, We Have Decided to Sublet Our Space. Now What?

- Restrictions in Lease
  - Use Restrictions
  - Consent/Silence
  - Sharing of revenue (how to calculate)

# Okay, We Have Decided to Sublet Our Space. Now What?

- Landlord Issues
  - Competition from subleasing
  - Desire to create “traffic” at property
  - Desire to assist an otherwise quality tenant
  - Possible sharing of subleasing revenue
  - Future potential of sublease premises

# Okay, We Have Decided to Sublet Our Space. Now What?

- Sublease/Consent Issues for Sublandlord
  - Reps and warranties
  - Indemnification of landlord for subtenant acts
  - Interaction with Landlord
  - Restoration

# It Seems Like There Is A Lot of Sublease Space Available. Can We Get a Good Deal? What Are the Risks?



# It Seems Like There Is A Lot of Sublease Space Available. Can We Get a Good Deal? What Are the Risks?

- Motivation/Benefits
  - Economics
  - Flexibility as to size and term
  - More liberal credit requirements

# It Seems Like There Is A Lot of Sublease Space Available. Can We Get a Good Deal? What Are the Risks?

- Risks & Mitigation
  - Delay of Landlord Consent
  - Less ability to negotiate
  - Recognition and non-disturbance agreement from landlord
  - Subordination and non-disturbance agreement from lender
  - Sublandlord default/bankruptcy
  - Landlord default/bankruptcy

# It Seems Like There Is A Lot of Sublease Space Available. Can We Get a Good Deal? What Are the Risks?

- Sublease/Consent Issues for Subtenant
  - Reps and warranties
  - Alterations
  - Right to pay rent directly to landlord
  - Obtain notice of and right to cure sublandlord defaults
  - Control sublandlord's ability to terminate
  - Indemnification from sublandlord from its breach of the prime lease

# Q&A

- If we do not have an opportunity to answer your questions during the webcast, we will follow up with you shortly after the webcast concludes.

# Contact Information

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- **Ron Cariola** is Managing Director and Head of Brokerage for Jones Lang LaSalle's Philadelphia office and has completed over 10.0 million square feet of site selection and transaction projects in Philadelphia and worldwide.
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