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EastBanc deeply discounting rent for WilmerHale's soon-to-be former D.C. headquarters

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EastBanc Inc. is bracing for the loss of its longtime anchor tenant at 1875 Pennsylvania Ave. NW. And while others have increasingly been offering up months of free rent and tenant concessions to land replacements, the Georgetown-based commercial real estate firm is going a different route.

Anthony Lanier, president and CEO of EastBanc, believes he has an even more enticing lure: flexibility and deeply discounted rental rates. Those will come into play as law firm Wilmer Cutler Pickering Hale and Dorr LLP prepares to exit 1875 Penn for new office space near the Foggy Bottom-GWU Metro station two years from now.

In the age of the coronavirus, many tenants don't want to lock themselves into a lease term of 10 years or more given all the economic uncertainty. And Lanier said tenant concessions and buildout coupled with free rent — which have served as go-to perks in recent years — can cost a landlord just as much as it can to lease the same space at a discount and let its tenants fit out their space as they wish.

So now EastBanc, with the aid of commercial real estate brokerage Cushman & Wakefield, is offering space at 1875 Penn for a triple-net rental rate of about \$29



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per square foot, compared with \$65 per square foot under the traditional model — a 15-year lease with concessions and free rent built in.

“We can be generous and say we’ll give you flexible terms. So the upside of all of this is we spend less money and we have less risk,” Lanier said. “It’s not that intelligent, what we’re doing — but it is. The longer you think about it, the more you are surprised. It took us many many months to convince the brokerage community that this is the way to go.”

EastBanc isn't planning any major renovations to 1875 Penn, which it developed in 2006 based on designs from Shalom Baranes Associates and which Lanier has said is one of his own personal favorite buildings.

Its amenities include a rooftop deck and ground-floor common areas that could become more heavily utilized amid the pandemic for workers in the building to meet with visitors outside of their companies' workplaces. EastBanc is offering the space in its current, as-is condition to keep its costs and prospective rental rates low, but Lanier said he is not opposed to other renovations to suit the needs of tenant prospects.

Zeke Dodson, a Cushman & Wakefield vice chairman who is part of the team marketing 1875 Penn, said the discounted rent approach goes against the local industry's recent history of increasing tenant concessions — landlords have averaged about \$127 per square foot in tenant improvements and 17 months of free rent, according to second-quarter stats from tenant rep firm Savills. Then again, he said, those increased concessions and free rent haven't eased market conditions that still very much favor tenants over landlords.

"These are unconventional times," he said. "This pandemic has impacted the economy, so it's impacted businesses, it's impacted how tenants use space — all of that in a negative way. It's impacted strategic planning, long-range planning for businesses."

Dodson said he has already received interest from a handful of brokers with space-seeking tenants curious about both the rent deal and the option for tenants to terminate their long-term leases after five years with written notice of at least 30 months.

EastBanc recently bought out its partner in 1875 Penn, giving it sole ownership of the Class A office building. In so doing, it has received support from lenders to refinance with new leases, including the termination option and reduced rental rate, Dodson said.

Real IS, the real estate fund and asset manager for BayernLB, a Munich, Germany-based bank, retained Colliers International in late 2019 to sell its stake in the office building, according to marketing materials. It ultimately agreed to a buyout of its limited partnership interest by EastBanc, dissolving their 14-year-old joint venture. The agreement values the 13-story office building at \$170 million, or about \$600 per square foot, the WBJ has learned.

Robert Stamm and William Kaye of Colliers, who led the team, declined to comment.

WilmerHale, Greater Washington's seventh largest law firm with more than 300 area attorneys, is the only tenant at 1875 Pennsylvania, and has been since the building delivered in 2006. The firm signed a 290,000-square-foot lease with Boston Properties in late 2017 to anchor 2100 Pennsylvania Ave. NW with an anticipated move-in date of August 2022.

Originally developed by EastBanc and The Mark Winkler Co. — the latter sold off its portfolio in 2006 — 1875 Penn was a rarity in the Central Business District with its neomodern, structural glass design. WilmerHale signed on in 2003 in what was at the time the largest private lease in D.C. history.