

New York owner carves out boutique office niche

K Property Group, a New York-based investment company that specializes in buildings of 300,000 square feet or less, is carving out a niche among smaller office tenants seeking high-quality space with no extra hassle.

“We’re working with tenants who have graduated from WeWork or Regus and want the same services you’d get from a shared space provider. They also want an identity and their own, meaning an encapsulated space within their building,” said Greg Kraut, managing partner.

Most sub-10,000 square foot tenants don’t want to sign long-term leases or come out of pocket for space costs, be it furniture, phones, or extra costs of building. “These tenants also tend to procrastinate their move schedule and are in a rush to get into a space,” Kraut said. “We allow tenants to be able to move into space in a fraction of the time, usually in less than 45 days, and with less hassle.”

With the aim of keeping things simple, K Property works with tenants who are looking for space for at least a year and want to move quickly. “Smaller spaces are in great demand – we see a vacancy rate of less than 5% for small, high-end pre-built space,” Kraut added, adding that there are almost no pre-built spaces that offer furniture and/or IT and phones. “These tenants don’t want to be distracted by a three- or four-month lease negotiation or build out,” he said.

Kraut, who joined K Property earlier this year after a long career representing tenants and landlords on leasing transactions, said this perspective has helped the company to evolve this strategy. “Coming from the leasing world has helped me to understand what tenants really want – and what landlords need to satisfy that demand,” he said. “I have seen most small tenants that are happy and have initially asked for a short term lease stay for several years as long as you have a product that keeps them sticky”. “We have found that by offering the flexibility, they actually stay much longer, pay more and it’s the closest occupancy rate that we have found next to multi-family. Nobody wants to move unless they have to”

One easy way to save time is on lease negotiations, Kraut said. “A lot of the time is spent negotiating 100-page leases, which is a huge annoyance and a waste of time and money. We use short form leases and/or license agreements,” he said.

The company also handles outside service providers, such as phone companies and internet service providers. “Tenants will pay more for the convenience,” Kraut said. This is particularly true for out-of-town tenants that want to hang their shingle in New York. “We see demand from companies that are based in London and want to open a small office in New York, or companies that are in Silicon Alley that might need 10 seats here as well as growing, New York-based firm that values convenience and efficiency,” he said.

While many landlords focus on providing an amenity-rich environment, Kraut believes that some amenities are critical – and others are not so important. “Most tenants want an environment with artwork, concierge services, somewhere to get a coffee, snacks or newspaper, and a car service on call. It’s also important to have security move very quickly,” Kraut said. “You don’t need to layer on a tremendous number of amenities. The key components are making the space look nice, using different colors of paint, having tasteful artwork and furniture, and a staff that’s friendly and says ‘Good morning.’”

While leasing up multiple tenants on smaller leases can be more time consuming than signing a few tenants to larger spaces, Kraut noted that there are other factors. “Some of the biggest investment funds would say that they need bigger tenants for credit purposes and longevity but I’d make the case that smaller spaces, which have always been significantly more occupied and are easier to re-lease than larger spaces,” he said.

There’s also the question of lowering risk. “Small tenants are an obvious driver of revenue from a demand and leasing velocity perspective, but what’s just as valuable is the risk mitigant of smaller, staggered tenant rolls throughout a building that is then not that mercy of a large vacancy event with the loss of one major tenant,” said Rod Kritsberg, managing partner.