Commercial Product Specialties – Office Buildings

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PRODUCT OVERVIEW

Office buildings range in size from small, owner-occupied properties to multi-building office parks. Office suites may also be an important portion of "mixed-use" developments, both in new construction or historic rehabilitation properties.

CATEGORIES OF OFFICE BUILDINGS

Note: Terminology differs from market to market.

Garden – One to three stories, usually suburban, generally smaller buildings than other categories. They may be single tenant/owner occupied (law firms, insurance agency, real estate office) or multi-tenant. Two or less elevators.

Low or Mid-Rise – Usually multi-tenant. Up to six stories, depending on area.

High-Rise – Usually in urban markets, most often in the central business district CBD. Multiple elevators, depending upon size.

Again, terminology will differ among markets. Some office specialists add categories such as medical/dental not so much because the size is unusual as that they are unique in physical characteristics (facilities for handicapped, plumbing, etc.) as well as tenant type and rent/cost to build. Investigate your market to become familiar with usage of terms by local professionals.

CATEGORIES OF OFFICE BY AGE, QUALITY

Note: These definitions will vary among local markets and may be used "loosely" by owners and agents.

Class "A" Property – Newer buildings, generally less than five years old, in excellent condition. High-quality fixtures, lobby area, newest technology systems, etc.

Class "B" Property – Seasoned buildings, five or more years old, that are in average or poor condition. Usually mid-rise in size.

Class "C" Property – Older buildings of any size that are in average or poor condition. Usually relatively inefficient in "loss factor" and operating expenses.

THE OFFICE USER'S NEEDS (OWNER/OCCUPANT OR LESSEE)

A Typical user will be interested in the following items. Of course the priorities will differ.

1. Location and Accessibility: For clients, customers, vendors, etc. Also for employees (including proximity to executive's residence)
2. Costs of Occupancy: Not simply the rent, but all costs including expenses paid by tenant
3. Parking: Customer and employees
4. Appearance: Interior and exterior – image
5. Cleaning Service
6. Elevator Efficiency
7. Amenities: Includes access to food service for employees, recreation facilities, telecommunication services, etc.
8. Tenant Improvements: How well-finished is the space (carpet, wall coverings, dividers, etc.), or if new construction, will the "tenant improvement" allowance (T.I.) be sufficient to pay for finishing out to the tenant's wishes?
9. Efficiency
    - Is the space layout (private offices vs. "open office" areas) efficient – with little wasted space, oversized offices, etc.?
    - Tenants in multi-tenant space pay a pro-rata share of common area space (halls, etc.) and some poorly designed or older buildings have a high percentage of such space (wide halls, atriums, etc.). See discussion of "load factor" and "rentable/usable."

AN OFFICE BUYER (OWNER-OCCUPANT OR INVESTOR)

The buyer will be interested in all of the above features (because they will affect the attractiveness of the property to tenants) and also the following:

- Income
- Expenses
- Mortgages
- Condition of roof (age)
- Condition of parking lot (ramp) and age
- Tenants (length, type, credit)
- Lease terms and conditions

OFFICE BUILDING CONSTRUCTION TERMS (BASIC)

The "Shell" – The skeleton: framing, girders, foundation over which the interior and exterior walls are applied.

The "Skin" – The materials that cover the shell.

The "Core" – Each office floor contains an area that is not for use by the tenants on that floor. These areas include elevator shafts, stairwells, rest rooms and space or rooms for mechanical, telephone, electrical or HVAC equipment. It is referred to as the core because it is frequently (but not always) located in or near the center of the floor.

Modules – Each floor of office space is divided into imaginary squares ranging from 3' to 5' often 3'8" or 4'. Usually these "modules" are consistent on each floor of a building. They are used to plan the layout of offices on the floor. Five' modules are attractive to tenants who want a large percentage of their office space divided into private offices, since a 10' x 10' office size is often considered minimum. Any five' incremental variation is also easy, i.e., 10'x15', 10'x20', etc.

Mullions – The exterior wall dividers of glass areas that correspond to the modules. Mullions are the natural points to attach interior dividing walls (as in walls between private offices). It is unattractive and costly to build an interior wall in the middle of an expanse of exterior windows.

HVAC – The Building's heating, ventilating and air conditioning equipment. Older buildings usually have a central system. Modern buildings have multiple units within the building and often have the ability to "zone" the HVAC on floors or areas within a floor.

Floor-Load Capacity – Refers to how heavy a load (weight) the floor can support. Can be important to tenants such as printers on a first floor or lawyers with a large law library on upper floors.

Elevators – In multi-floor buildings a sufficient number of elevators to service the needs of tenants and customers/vendors is important to avoid the frequent problems of lengthy waiting time.

Ceiling Height – A 9' ceiling greatly enhances the "spacious" feeling as compared to an 8' ceiling.

Plumbing – Sufficiency per floor is important. Adding specialized plumbing for a tenant is very expensive.

Life-Safety Features – This term includes the following items that can be of importance to occupants:

- Automatic sprinkler systems
- Smoke detectors
- Manual fire alarms
- Automatic door release systems
- Smoke evacuation systems
- Elevator recall systems
- Emergency stair systems
- Remote stairwell unlocking
- Firefighter's phone system
- Emergency power
- Central control console

OFFICE SPACE MEASUREMENT

Standards for measuring space vary from market to market. Obviously, the tenant wants not only the lowest rent (and occupancy cost) per square foot, but also wants to pay for the minimum amount of space in addition to the actual space he/she can use for his/her business. The most common measuring system in use is that defined by The Building Owners and Managers Association International (BOMA).

OFFICE SPACE MEASURING STANDARDS (PHYSICAL ASPECTS)

There are two types of space measurement of office buildings: (1) rentable area and (2) usable area. According to BOMA, the definitions of these terms are as follows:

1. Rentable Area. This method measures the tenant's pro rata portion of the entire office floor, excluding elements of the building that penetrate through the floor to areas below. The Rentable Area of a floor is fixed for the life of the building and is not affected by changes in corridor sizes or configuration. This method is therefore recommended for measuring the total income producing area of a building and for use in computing the tenant's pro rata share of a building for purposes of rent escalation.
2. Usable Area. This method measures the area of a floor or an office suite which can actually be occupied, and is of prime interest to a tenant in evaluating the space offered by a landlord and in allocating the space required to house personnel and furniture. The amount of Usable Area on a multi-

tenant floor can vary over the life of a building. Corridors expand and contract as floors are remodeled. Usable Area on a floor can be converted to Rentable Area by the use of a conversion factor.

Note that a building floor's rentable space does not change: it is the entire floor less major vertical penetrations of the floor. Usable space, i.e. rentable space less common area, can change as offices and corridors are moved or remodeled.

When space costs are quoted, they are usually quoted on a rentable basis. As such, it is very important to understand rentable vs. usable space and how the two measurements are derived. Below are BOMA's official standards.

- Rentable Area. The Rentable Area of a floor shall be computed by measuring to the inside finished surface of the dominant portion of the permanent outer building walls, excluding any major vertical penetration of the floor.

  No deductions shall be made for columns and projections necessary to the building.

  The Rentable Area of an office on the floor shall be computed by multiplying the Usable Area of that office by the quotient of the division of the Rentable Area of the floor by the Usable Area of the floor resulting in the "R/U Ration" described herein.
- Usable Area. The Usable Area of an office shall be computed by measuring to the finished surface of the office side of corridor and other permanent walls, to the center of partitions that separate the office from adjoining Usable Areas, and to the inside finished surface of the dominant portion of the permanent outer building walls.

  No deductions shall be made for columns and projections necessary to the building. The Usable Area of a floor shall be equal to the sum of all Usable Areas on that floor.

  "Finished Surface" shall mean a wall, ceiling or floor surface, including glass, as prepared for tenant use, excluding the thickness of any special surface materials such as paneling, furring strips and carpet.

  "Major Vertical Penetrations" shall mean stairs, elevator shafts, flues, pipe shafts, vertical ducts, and the like, and their enclosing walls, which serve more than one floor of the building, but shall include stairs, dumbwaiters, lifts, and the like, exclusively serving a tenant occupying offices or more than one floor.

In every building there will be a ratio between rentable space and usable space, since rentable space will almost always exceed usable space. This ratio, or percentage of rentable space over and above usable space is called the R/U ratio. This factor is a key index for the floor's efficiency - greater the R/U ratio, the less efficient the space. A related efficiency index is known as the load factor, or loss factor. This is the percentage of space on the floor that is not usable, expressed as a percent of usable space.

These various relationships can be expressed in formulas as shown below:

1. Rentable/Usable Ratio (R/U ratio) = $\frac{\text{Rentable Area}}{\text{Usable Area}}$
2. Rentable Area = Usable Area x R/U Ratio
3. R/U Ratio -1 = Load Factor

Note that when using the R/U ratio and load factor formulas, a tenant's rentable area can be quickly derived by either multiplying the usable area needed by the R/U ratio, or by adding needed area plus the load factor.

The rentable area of an office on a multi-tenant floor is measured from the inside finish of permanent outer building walls to the office side of permanent partitions and to the center of partitions that separate the premises from adjoining rentable areas. No deductions are made for columns and projections necessary to the building.

Exercise

A tenant needs 10,000 square feet of usable space and has a choice between:

1. A building offered at $22.00 per square foot with a load factor of 9%.
2. A building offered at $21.00 per square foot with a load factor of 15%.

Which building offers the lowest effective rent, and what are the effective rents:

FORMS

It is desirable to track your own data on properties and prospects. The following are types of information that you should track. Some agents track all conceivable information for any property type and to be used for lease prospects, sale prospects, etc. There are various online data sources such as Loopnet, CoStar and REIS to name a few.

1. Property Information (for any property type):

    Property address
    Property name, if any
    Map location
    Assessor's code
    Access routes
    Zoning (conforming use?)
    Site dimensions (average or total square feet)
    Improvement dimensions and total square feet
    For sale, lease, exchange
    Date available
    Listing agent, expiration
    Contact name and phone

2. Office Property Data:

    Type of space (high rise, garden, etc.)
    Class (A, B, or C)
    Number of floors
    Construction type

Floor load
Year constructed
Style
Module size
Bay size
Total rentable square feet
Total usable square feet
Loss factor
HVAC
Life safety
Special features and amenities

3. User Data (all types of property):

   User name, address, phone
   Company name
   Local, regional, or national company
   User's business type (SIC code)
   Contact's name, title, phone
   Decision makers
   Lease, sale, exchange terms desired
   Co-broker information
   Cash available for purchase (or for tenant improvements)
   Reasons for relocation
   Current lease information (rates) or costs of occupancy
   Lease expiration
   Location desired
   Move-in date desired
   Minimum/maximum space desired

4. Office User Data:

   Maximum price per square foot
   Dimensions desired
   Parking needs
   Special features required
   Storage needed
   Percentage of open space
   Comments

FURTHER INFORMATION

Organizations:
Building Owners and Managers Association (BOMA)
Arnold, MD

Institute of Real Estate Management (IREM)
Chicago, IL

National Association of Industrial and Office Parks (NAIOP)
Arlington, VA

Society of Industrial and Office REALTORS® (SIOR)
Washington, D.C.