

## Commercial Real Estate Group of Tucson LLC

### A Rising Tide Lifts Most Boats

**A**ccording to CoStar, the average U.S. office vacancy rate decreased to 11.4 percent in the 2nd quarter of this year; however, many office markets are flourishing while others are stagnant. So, which areas are doing well and why?

At least 90 percent of the markets have been doing well over the past 12 months. Booming cities like Houston, New York, Atlanta, Boston, and Denver are overflowing with technology, healthcare, and energy companies, and plenty of millennials to work for them.

Conversely, certain office markets are experiencing slow growth and stubbornly high vacancy. For example, New Jersey and West Palm Beach are experiencing slow growth because companies have left those markets or closed due to many years of public policy unfriendly to business or a demographic draw elsewhere of young talent and nimble enterprises. Several markets are experiencing slightly increased vacancy such as New Haven, Buffalo, and Milwaukee for generally the same reasons.

The positive activity has generally boosted landlord confidence over the past year. Tenants also have been signing longer leases and acquiring larger blocks of space. As a result, Houston, San Francisco, Pittsburgh, and Portland rental rates are increasing while tenant improvement allowances are receding. Houston towers over other markets because its energy sector is thriving. As such, Houston now has nearly 18 million square feet of office space under construction, 67 percent of which is pre-leased or built-to-suit for users.

Great opportunities are available for businesses in these markets and many others across the country. To find motivated office landlords in your area, please contact your local ITRA Global Tenant Representative.



Michael Coretz

### Corporate Real Estate Rule #1: Know Thy Business!

By Elise Luckham

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**I**n today's world, corporate real estate means different things to different companies, but one thing that is consistent for all firms is strategic alignment: the viewpoint of a company's Corporate Real Estate Executives (CREs) should reflect the strategic goals of the company.

CREs must effectively mine all the data and reports received on their industry and create knowledge that is pertinent to their company's business in order to be of value to their organization. Companies rely on their CREs to "read the tea leaves" of the market and other conditions that affect it in order to guide the business through the costly procurement of corporate real estate.

Rule #1 is to know the business, and not just at a macro level but deeply. Who are the employees? What are their demographics and cultural influences? How does the business operate all the way down to a customer level? How is business transacted? What influences the business cycle? Once you answer these questions and understand where employees are located, you can say "I know how you conduct business and I can help you do it better."

The gift of knowledge is seeing the whole picture, navigating through vast amounts of data about your company and industry, and being able to crystalize a simple premise: it only matters if it matters to the company/business you are supporting. Companies are very focused on what drives their business and what risks affect it. As a CRE supporting the company's goals and strategies, it is important to know what those drivers and risks are because that is what keeps the C-suite up at night.

Then advise them on real estate policies

that support the drivers and minimize the risks, which can be determined by understanding the following three factors.

#### People

What are the ages, education levels, and cultural norms of the employees? Who are your customers, and what are their demographics? First and foremost, determine the vital stats of your company.

And don't buy the latest hype. You read that Generation X and Y must have collaborative, open office space because they live off their smartphones and tablets. Therefore, we are told offices need plenty of Internet access portals to keep them happy and productive with the latest gizmos.

But there's another side to the story. In 2020, Baby Boomers are predicted to still be 45 percent of the workforce. How will they perform in a workspace designed for the X and Y Generation? Know your employees, and don't be afraid to mix areas to support specific needs. One size doesn't fit all, so design office space accordingly. Compare cultural and industry trends to the actual demographics of your employees and customers.

What do we mean by "mixing areas"? Besides getting to know your business, identify your internal business groups. A group of IT developers are likely interested

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# How to Make Sure Your Work Letter Protects You

By Wayne Timura, P.E., Principal  
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Perhaps the most overlooked facet of leasing new corporate office space is the complicated world of work letters, which are attachments or exhibits to a lease identifying the landlord's responsibilities to fund all or a portion of the improvements to the tenant's premises.

The work letter agreement between the landlord and tenant establishes the scope of work and the terms of how the tenant improvements (TI) will be designed, constructed, and funded.

## Look at the Big Picture

There are a multitude of factors to consider when negotiating and structuring a work letter. The most important are:

- The specific funding vehicle must be determined. The landlord may provide a lump sum or a dollar amount per rentable square foot; fund 100 percent of the TI; or amortize the cost over the base rental rate. Additionally, the landlord may try to restrict use of funds to general improvements that benefit the overall space vs. the tenant's specific needs. For example, a landlord will typically want to approve TI for conformance to building standards, signage guidelines, and quality of finishes.
- It is important to understand the type of space being improved. Will the funding be used for improving core and shell space, or for second generation space previously occupied by a tenant? There are different levels of core and shell space: totally unfinished (without HVAC equipment or main HVAC, plumbing, and power distribution), or "warm" core and "cold shell" space with some infrastructure in place.
- The project delivery method must be defined: design/bid/build; construction manager design-assist; or design/build. Equally important, the work letter must clearly designate who will be responsible for the TI design and construction and whether the landlord or tenant will hold the TI contracts.
- The work letter agreement must also stipulate who holds professional design liability for the improvements. Will the landlord perform the work "turn-key" based on approved plans and specifications created by the landlord or based on the tenant's architect and engineer's design? It also is important to determine if the landlord will negotiate the work with its preferred contractors or if the work will be competitively bid. On the other hand, if the ten-

ant does the improvements, it should be clearly defined whether the tenant needs to use the landlord's authorized architects, engineers, and contractors, or has the right to select its own team. Concurrent work performed by landlord and tenant also needs to be addressed.

## No Detail is Too Small

A tenant should negotiate everything related to improvements in a work letter and should not assume anything. Therefore,



the tenant must thoughtfully plan how the improvements will be executed and include the following points in the work letter:

- Describe the improvements with drawings and specifications, but understand that changes happen to even a well-defined scope of work. Change orders can be costly. Therefore, negotiate unit prices to apply to change orders (in dollars per square foot or dollars per linear foot, for example) and include them in the work order.
- Define payment terms, lien waivers, retention, and release of retention. Consider using the American Institute of Architects (AIA) G702™ payment application or similar form certified by the architect of record.
- Outline a space plan, room finish schedule, material quality, specifications, and approvals. Consider the need for computer server rooms, structured voice and data cabling, security and access

control requirements, acoustic treatment, kitchen/café spaces, and any other special programs or requirements.

- Define Substantial Completion (SC) of the improvements and consider using the AIA G704™ form signed by the architect of record to establish the date when the work is "completed." Tie the lease and rent commencement date to SC or a certificate of occupancy, either on a specific date or a set duration after SC. Specify the maximum duration from SC date for the landlord to complete 100 percent of the punch-list and deliver as-built record drawings. Equally important, consider what happens when delays to the improvements are caused by Force Majeure, by landlord, or by tenant. If delay is caused by the landlord, then consider free rent or other concessions. If the delay extends beyond a certain number of days, it could be cause for termination of the lease and consequential damages should be negotiated and included in the work letter.

Beneficial Occupancy should also be defined as well as tenant's rights once achieved, including access for tenant-constructed improvements and installation; e.g. voice and data wiring and office systems furniture and cubes. Tenant-furnished material and equipment installed by the landlord should be considered.

- Establish limits for landlord's project management, technical review, administrative, and other overhead fees. If the TI allowance is underspent, how can it be used? What happens when additional improvement allowance is needed: Will it be a lump sum payment to the landlord or an amortized increase to the base rental rate?
- Consider warranties and "attic stock" (e.g. carpet, ceiling tile, paint). Negotiate ownership of and responsibility for the server/data rooms, HVAC equipment, and uninterrupted power source equipment.
- Determine end-of-lease restoration of the space for conforming or non-conforming improvements so it is clearly understood whether structured voice and data cabling, for example, must be removed at the end of tenancy.

## Conclusion

Work letters vary and should be subjectively crafted for each specific lease. Therefore, the duration of the lease term,

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# Select ITRA Global Transactions

- **Mazirow Commercial, Inc. / ITRA Global** represented Pacific Compensation Insurance Company for a 53,214 square foot office lease in Westlake Village, California.
- **Compass Commercial, LLC / ITRA Global** represented BSB Communications, Inc. for a 14,924 square foot flex transaction in Sterling Heights, Michigan.
- **Nidea Realities Corporation Limited / ITRA Global** completed a 30,000 square foot office renewal/restructuring for Gemma Communications in Toronto, Canada.
- **Corporate Real Estate Advisors / ITRA Global** completed a 7,205 square foot office lease for CCI Europe, Inc. in Atlanta, Georgia.
- **The Stevens Group / ITRA Global** completed a 28,772 square foot office lease for Aras Corporation in Andover, Massachusetts.
- **LOGICAL Move / ITRA Global** represented Hyland Software, Inc. for their 6,570 square foot relocation in Salt Lake City, Utah.
- **PG Commercial Real Estate, Inc. / ITRA Global** completed a 22,177 square foot office lease renewal for Kellogg Company in Horsham, Pennsylvania.
- **Michigan Commercial Space Advisors / ITRA Global** completed a 10,606 square foot lease of classroom space for Spring Arbor University in Battle Creek, Michigan.
- **Don Cox Company / ITRA Global** represented Impact Labor, LLC in leasing 274,808 square feet of tire distribution space in Coppell, Texas.
- **Selinger Enterprises, Inc. / ITRA Global** completed an 8,205 square foot office lease for Insight Insurance, Inc. in Melville, New York.

## Office, Industrial and Retail Facilities

- Regional, National, International Headquarters
- Research & Development
- Life Sciences
- Warehouse / Distribution
- Manufacturing

## Real Estate Market Analysis

- Acquisitions
- Dispositions
- Lease Renewals

## Negotiations

- Proposals
- Leases
- Dispositions
- Acquisition Contracts
- State & Local Incentives
- Sale / Leasebacks
- Work Letters
- Operating Expense & Tax Audits
- Architectural / Engineering Contracts
- Developer Agreements

## State & Local Incentive Negotiations

- Statutory and Negotiated Incentives
- Cash Grants
- Infrastructure
- Tax Credits and Abatements
- Workforce Grants and Training
- Subsidized Land and Building Costs

## Lease Management

- Lease Abstracting
- Financial Reports
- Tax & Operating Expenses

## Strategic Planning

- Model Development
- Acquisition/Consolidation Analysis
- Policies & Procedures Manuals
- Space Planning

## Location Analysis

- Labor Market Analysis
- Transportation Costs
- Utility Costs & Availability
- Quality of Life
- Taxation
- Market Accessibility

## Financial Analysis

- Buy vs. Lease
- Build-to-Suit
- Equity Participation
- Sale / Leasebacks

## Surplus Property Analysis

- Marketability
- Highest & Best Use
- Disposition Strategies

## Project Management

- Needs Assessment
- Project Budget Management
- Selection and Oversight of Design Team Contractors and Vendors
- Move Coordination



Contact your regional ITRA Global representative for Industrial and Retail market statistics.

## United States

Second Quarter 2014

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent
1	Asheville	11.0M	6.2%	0.7M	\$15.89
2	Atlanta	302.4M	14.4%	43.6M	\$18.75
3	Austin	87.3M	9.4%	8.2M	\$28.59
4	Baltimore	136.1M	11.5%	15.7M	\$20.94
5	Boston	385.0M	9.7%	37.2M	\$20.66
6	Charlotte	100.0M	10.6%	10.6M	\$19.97
7	Chicago	460.1M	14.2%	65.3M	\$22.62
8	Colorado Springs	28.2M	11.7%	3.3M	\$16.43
9	Dallas/Ft. Worth	338.9M	14.9%	50.6M	\$21.01
10	Denver	188.2M	10.8%	20.4M	\$22.55
11	Detroit	196.5M	16.7%	32.8M	\$17.49
12	Ft. Lauderdale / Broward Co.	68.9M	12.2%	8.4M	\$23.44
13	Grand Rapids / West MI	77.6M	10.3%	8.0M	\$12.17
14	Houston	278.1M	11.0%	30.6M	\$27.03
15	Indianapolis	98.9M	8.5%	8.4M	\$16.63
16	Kansas City	113.1M	11.9%	13.4M	\$17.10
17	Long Island	169.3M	7.7%	13.1M	\$26.16
18	Los Angeles	425.8M	11.9%	50.8M	\$29.61
19	Miami / Dade Co.	99.5M	12.0%	11.9M	\$29.64
20	Minneapolis	186.9M	9.5%	17.8M	\$17.63
21	Nashville	76.6M	7.3%	5.6M	\$19.31
22	New York City	554.9M	8.4%	46.5M	\$55.28
23	Northern New Jersey	358.7M	14.4%	51.6M	\$23.66
24	Orange County (CA)	152.9M	11.5%	17.6M	\$23.62
25	Philadelphia	402.0M	10.9%	44.0M	\$21.48
26	Phoenix	159.6M	17.7%	28.2M	\$20.62
27	Pittsburgh	123.2M	8.4%	10.3M	\$19.83
28	Portland	96.2M	8.6%	8.3M	\$20.59
29	Richmond	60.7M	10.7%	6.5M	\$16.94
30	Salt Lake City	89.5M	7.0%	6.3M	\$17.50
31	San Diego	112.9M	12.0%	13.6M	\$27.08
32	San Francisco	161.3M	8.3%	13.3M	\$43.90
33	Seattle/Puget Sound	184.3M	9.5%	17.5M	\$27.65
34	St. Louis	129.5M	11.2%	14.5M	\$17.90
35	Tampa	147.2M	12.5%	18.3M	\$18.61
36	Tucson	24.3M	12.8%	3.1M	\$18.20
37	Washington, D.C. Metro	467.7M	14.6%	68.5M	\$34.42
38	W Palm Beach / Palm Beach Co.	54.6M	15.3%	8.3M	\$25.99
39	Westchester County, NY	168.2M	13.1%	22.0M	\$28.04

\*The above data set includes all buildings, including government, owner-occupied, and small (less than 5,000 square foot) buildings.

## Toronto

Second Quarter 2014

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent
40	Toronto	71.0M	9.9%	5.8M	\$20.28

## London

Second Quarter 2014

	DISTRICTS	Take Up	Availability	Prime Rent
41	City Core	1.10M	5.90M	£58.50
42	London Docklands	0.40M	1.10M	£38.50
43	London Southbank	0.30M	1.20M	£50.00
44	London West End	0.80M	4.60M	£105.00
45	London Midtown	0.40M	1.20M	£60.00

## Paris

Second Quarter 2014

	DISTRICTS	Take Up*	Vacancy	Prime Yield	Prime Rent*
46	Paris Central Business District (CBD)	0.097M	5.9%	4.00% - 4.30%	€700
47	Paris Central Districts excluding CBD	0.017M	6.0%	4.90% - 5.50%	€450
48	La Défense	0.087M	8.0%	5.30% - 6.75%	€510
49	Western Suburbs	0.219M	15.0%	5.20% - 6.75%	€400

Definitions for Paris

\*"Take Up" - Space absorbed in the previous quarter in m<sup>2</sup> / "Grade A Vacancy" - Available Space / Euros / m<sup>2</sup>

# Add \$\$\$ to Your Bottom Line

## State and Local Incentives

By Ronald R. Pollina, Ph.D., President  
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American companies are competing in a vast and highly competitive global arena. Economics are forcing companies to look very hard for the best and most economically competitive locations from which to work.

The relocation process is complex, with numerous variables to consider. State and local financial incentives are a very important factor that can make a company more competitive and profitable. Incentives have developed as a competitive mechanism for states and communities to retain existing companies and to motivate corporations to relocate.

Generally, any company that is relocating, expanding, consolidating, merging, or acquiring another company would likely qualify. In each case, the potential exists for a company to consider its location options and how location might impact profitability. In considering these options,

a company should examine how state and local incentives can impact its location decision.

Financial incentives can vary greatly from state-to-state and even community-to-community. Much depends on the state and local political attitudes toward job attraction. While it would be a very rare governor or mayor who did not espouse their commitment to job creation, not all follow through. A professional incentive negotiator can help save a considerable amount of time by identifying those cities and states willing to follow through on pro-business rhetoric. This is why the range of incentives can run from \$0 - \$150,000 or more per employee.

Size matters—the more jobs a community can acquire, the higher the incentive dollars offered. Fortune 500 companies also tend to receive more money per job than lesser-known companies. The quality

of the jobs is also an important factor. For example, 200 high salary research and development jobs will garner more money per job than 200 low salary assembly jobs.

This does not mean that a small company with 75 new jobs will not receive incentives, but rather that the company may only qualify for certain incentives and those will undoubtedly be less valuable on a per job basis than for a larger company.

It is also critically important for a company to examine all details of incentive programs offered by government entities before confirming a site selection. The reason is simple: Once a company makes a decision and publicly announces its intent to relocate to a specific community, the motivation of state or local governments can recede rapidly.

A good incentive negotiator can guide the company through the maze of fine print and cumbersome applications that state and local governments often require to qualify for incentive programs. Most importantly, the negotiator can accurately predict what incentives the company will actually receive in real dollars at the conclusion of the application process.

## Know Thy Business! *Continued from page 1*

in collaborative space with many white board walls and places you can plop down with a laptop and work in a Starbucks-like environment. But that might not work for groups of attorneys and analysts who want silence so they can totally focus on their work. Sometimes those workers need the privacy of offices, but many have the blinds shut on their windows. So maybe they don't really need a window office. This presents an opportunity to please almost everyone: move the attorneys or analysts to the center of the space and give them privacy but not the window; make the area nearest the windows open space and move IT into it. Smart trade, which is easily supported by their business needs.

### Place

Understanding labor rates, regulatory issues, crime, weather, and access to the potential location of your offices and facilities seem to be the easiest factors to address in your hunt for appropriate real estate, but a great deal of data must be analyzed. Often, the conclusions are contradictory:

- One data chart shows area job growth is projected primarily in California and Nevada, but other states look great, too.
- Another chart depicts the most business friendly states, with California and Nevada ranked #47 and #46 respectively. Ouch.

Well, how about Texas? That's ranked #2 for business friendly. Much better.

- But a third chart shows the number of tornados that hit states each year. Umm, 155 in Texas. That means employees and customers can't reach the office on many days. Is that a major location consideration?

### Process

Materials, energy costs, and transportation are often huge considerations for a company. That's why it's critical to know what drives your business. If you're a data or call center, the cost of energy probably is a major factor. In other cases, the unique skill sets required for your business can only be found in certain markets. Remember the early 2000s when the entire mortgage industry leased corporate space in Southern California? That space was among the highest priced in

the country, so why would they go there? Talent. That's where the hotbed of talent was for the industry. Need access to major transportation routes to move your goods? That's also a key factor for some companies. So, process and place are integral to each other.

### Conclusion

Don't wait for the C-suite to articulate its business needs to you. Dig in, get dirty, learn the business, and step out of your comfort zone. The company's business is your business. There is no single piece of data that has all the answers. Getting additional data is easy, but you have to navigate through everything, apply it to your business, determine the priorities of your company, and establish the right criteria for investing in corporate real estate. Your knowledge is the value that you provide to the company.

## Your Work Letter *Continued from page 2*

economic conditions, and local and county norms are also considerations. Based on the anticipated budget, the complexity of the tenant improvements, and the project delivery method selected, the tenant should consider engaging the professional support of an architect, mechanical and electrical engineers, project manager,

attorney, and accountant if not available in the tenant's organization. The support could be one-time consulting or ongoing for the duration of the tenant improvements. In either situation, time invested in a work letter is well worth it to prevent disputes with the landlord and avoid unforeseen costs.

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## Corporate Real Estate Strategies

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*ITRA Global provides corporate real estate services for tenants and buyers throughout the world.*



## Global Coverage

#### United States

Asheville  
 Atlanta  
 Austin  
 Boca Raton  
 Boston  
 Chicago  
 Colorado Springs  
 Dallas  
 Denver/Boulder  
 Detroit  
 Fort Lauderdale

Grand Rapids  
 Houston  
 Long Island  
 Los Angeles  
 Nashville  
 New Jersey  
 New York City  
 Orange County  
 Philadelphia  
 Phoenix  
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Salt Lake City  
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