

Cherry & Associates | Nashville, Tennessee

Good News Bad News

Slowly but steadily, the U.S. economy has been roaring back. The GDP has been above 3.5 percent four out of the last five quarters. The Dow Jones average rose 11.4 percent in 2014 for the third straight year of double-digit growth. Unemployment has dropped to 5.6 percent—the lowest in seven years. Inflation remains under two percent for the eighth consecutive year. Consumer spending will continue to increase in 2015 due to declining fuel and energy prices and growing employment. Even the housing market has begun to rebound.

The impact of this financial good news is bad news for users of office, retail, and industrial space. Since there has been minimal construction during the past five years, the increasing demand due to the improving economy will cause vacancy rates to decline at a faster pace. Declining vacancy rates means rising rental rates.

The central business districts have been ahead of this curve by enjoying record growth due to Millennials populating the burgeoning technology sector. As a result, the price per square foot of commercial space has reached new highs in saturated markets like New York City, San Francisco, and Chicago.

The bottom line is that the economy is taking off and should continue to do so for at least another two years. This will drive commercial rents and prices back to pre-recession levels. The savvy business owner or professional should use their local tenant representative to attain long-term leases now to avoid the coming rental price spike. An ITRA Global tenant representative will provide no-conflict negotiation to achieve this goal.



Los Angeles Office Market

The New Era of Office Space

By Sheryl L. Mazirow, CCIM
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Los Angeles, California USA

Welcome to the brave new world of office space in the Los Angeles market. It is comprised of neighborhoods, communities, huddle spaces, hoteling, benching, pathways, and—above all—collaborative space. Let's not forget the ability to bring man's best friend, our beloved dog, to work.

Today's office space landscape is far different than it was just a few years ago. The driver in the Los Angeles area is tenants' desire to secure what is called "creative" office space. Although originally sought only by technology firms, this trend has gone mainstream with law firms, real estate companies, accounting organizations, and insurance companies now demanding corporate office space that is 180-degrees opposite of "our father's office space."



New Must-Haves

Often the creative office environment includes an "open ceiling" exposed plenum, which is the area between the structural floor and the dropped ceilings—the location of air conditioning, heating ducts, and insulation. Although the plenum is typically unattractive in appearance, landlords claim it is expensive to convert traditional drop ceilings into creative interiors.

Clusters of open areas are the hallmark of creative office space replacing a row of offices along the window line with secretarial or staff bays on the interior, which are characteristic in traditional

corporate space.

This open landscape is designed to promote interaction and collaboration among employees or departments, known as

"neighborhoods," within an organization. Often there are no specific offices assigned to particular individuals. Employees "plug-in" and "logon" and perform their work tasks at different areas within the premises.

Private conversations take place in a "huddle" area, which is often simply an alcove. Off-site

employees that drop into the office as well as visitors are said to be "hotelings."

Creative office space has an absence of walls. This seems like an easy, efficient way to provide workspace. Unfortunately, it isn't. Tenant improvement costs are incurred by opening up the ceiling to expose the plenum areas and by demolishing previously designed traditional offices. Core drilling into concrete floors for electrical and data drops can get expensive, according to landlords, but is critical in these open landscape plans. Often "soft walls" made of fabric can be decorative to enhance the atmosphere but may or

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Lease Landmines Can Destroy Your Bottom Line

By Craig Melby, CCIM, SIOR
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Since most commercial real estate leases are initially presented to a potential tenant in a “boiler plate” format, it is critically important to review each and every clause to make sure that no detail goes unnoticed so as to avoid potential landmines that could financially devastate your bottom line.

Scrutinizing the fine print of a lease under the microscope is the only way to mitigate potential dilemmas. A prospective tenant must question every ambiguous clause and negotiate all unnecessary requirements in the contract to avoid financial nightmares that could haunt a company for the duration of its lease term. The most common landmines are:

- **Operating Expenses/Audit Rights.** Never agree to pay landlord operating expenses that have no exclusions and no cap on expenses. You must always have the ability to audit all expenses that the landlord expects to be reimbursed by you. Otherwise, you might end up paying for a country club membership or replacing an old roof when you have a short-term lease that expires soon. Instead, provide a long list of carve-outs—items that cannot be added to operating expenses—and thereby minimize the increase in expenses each year.
- **Staying Beyond the Lease Term.** This clause is usually expressed as “Holdover” in the contract and sounds innocuous, but the penalty is often Double Rent. A penalty is understandable because the landlord probably needs the space back for another tenant. The space, however, could remain vacant after your departure. Meanwhile, you’re paying double rent for no reason. Amend the clause: No new tenant, no increase in rent.
- **Relocation.** Landlords frequently want the right to relocate your company to a different space. Landlords like this option so they can accommodate major tenants that need adjacent space or the balance of your office floor. That said, you can generally eliminate this clause if you ask or amend it to your satisfaction.
- **Building Damage.** The landlord usually demands unlimited time to rebuild the premises after fire or other damage, which can be a major disaster for a tenant. What happens if the building gets heavily damaged by fire, earthquake, or hurricane and is uninhabitable? As a tenant, you’d like to set up shop someplace else to avoid customer attrition. But if you relocate, you could be liable for rent



and operating expenses on the new space and your former space. You have two tools at your disposal to protect your interests here: Limiting the time the landlord has to rebuild, and negotiating cancellation of the lease in case of major damage.

- **Non-Disturbance Clause.** This item, which addresses what happens in the event the property goes into foreclosure, is only problematic if the landlord fails to place the clause in the lease. Without this stipulation, a financial lender and new owner of a property can cancel your lease. Make sure a non-disturbance provision is included in the lease agreement.
- **Missed Commencement Date.** From time-to-time, a landlord does not have the space ready when promised, but you’re ready to get set up, move equipment and furnishings into the space, and open for business. You’ve been hiring, training, and paying new employees and managers for months. We suggest inserting a missed commencement clause in the lease that requires the landlord to

give the tenant free rent for every day of delay beyond a certain period. This requirement helps the tenant mitigate the extra expenses it incurs as a result of the delay.

- **Late-Payment Penalty.** Tardiness in payment is sometimes no fault of the tenant, especially with an unreliable postal system in your area. You should negotiate a late payment clause in the lease that allows late rent once a year without penalty.
- **Lease Indemnification.** Landlords try to indemnify themselves against any possible loss or damage, but sometimes they go too far. This is where the attorneys argue about “negligence” versus “gross negligence” and other subtleties, but basically you really want to be protected from the landlord’s action or inaction and that of their employees. Make sure you’re comfortable with the indemnification provision in the lease.
- **Renewal Option.** This is a problem if it’s not in the lease. Renewal options are customarily only provided upon request, and you should demand at least one, preferably at a set rate rather than a “market rate.” You should also ask for future refurbishment of the premises at this time.
- **Automatic Renewal.** On the other hand, automatic renewal that triggers if you fail to cancel is a landmine waiting to explode, particularly if you have unfavorable lease-renewal terms or rates. If you agree to an automatic renewal, make sure the landlord gives you notice about the renewal with a requirement that you must respond in the affirmative or negative.
- **Sublease & Assignment Rights.** Landlords like to maintain control of their property, which is fair enough; however, they sometimes go too far and retain the right to reject arbitrarily a sublease or assignment. This can adversely impact a company’s plans when it wants to sell or acquire a business and has new space needs. Therefore, take the proper precautions and make sure you can live with the conditions of this clause.

Conclusion

These problems and other hidden landmines in typical commercial office leases are best defused by a professional corporate real estate advisor. If you negotiate a lease without one, you risk a landmine exploding on your bottom line.

Select ITRA Global Transactions

- **Stagman Commercial Real Estate Advisors / ITRA Global** completed a 14,000 square foot industrial lease for Kira Labs Inc. in Pompano Beach, Florida.
- **Nidea Corporate Real Estate / ITRA Global** completed a 22,500 square foot building acquisition for AtlasCare in Oakville, Ontario.
- **Michigan Commercial Space Advisors / ITRA Global** completed a 7,232 square foot office lease for Paul Groebel Group in Grand Rapids, Michigan.
- **Carrie S. Holstead Real Estate Consultants, Inc. / ITRA Global** completed a 10,550 square foot headquarters lease for Somerset Coal International in Pittsburgh, Pennsylvania.
- **The Stevens Group / ITRA Global** completed a 70,029 R&D lease for LaMaitre Vascular, Inc. in Burlington, Massachusetts.
- **Corporate Real Estate Advisors / ITRA Global** completed an 86,000 square foot warehouse lease for Sumika Polymers in Atlanta, Georgia.
- **MacLaurin Williams / ITRA Global Denver-Boulder** completed a 13,614 square foot office lease for Delivery Agent in Denver, Colorado.
- **Cox Oddo Commercial / ITRA Global** completed the purchase of a 68,600 square foot office/manufacturing facility for Let's Gel in Austin, Texas.
- **Corporate Realty Advisors / ITRA Global** completed a 21,047 square foot office lease for the Clark Construction Group in Irvine, California.
- **The Levy Group / ITRA Global** completed an 18,535 square foot office lease for Ontario Teachers' Pension Plan in London, England.

Tenant Representation

- 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



United States

Fourth Quarter 2014

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent
1	Atlanta	303.6M	14.2%	43.1M	\$19.47
2	Austin	89.1M	8.6%	7.6M	\$28.44
3	Baltimore	136.5M	11.2%	15.3M	\$21.17
4	Boston	388.4M	9.2%	35.9M	\$20.77
5	Charlotte	100.1M	9.9%	9.9M	\$20.30
6	Chicago	459.4M	13.7%	63.0M	\$23.18
7	Colorado Springs	28.4M	12.0%	3.4M	\$17.02
8	Dallas/Ft. Worth	340.9M	14.3%	48.8M	\$21.62
9	Denver	189.1M	10.3%	19.4M	\$23.26
10	Detroit	196.3M	16.1%	31.6M	\$17.80
11	Ft. Lauderdale / Broward Co.	69.1M	11.8%	8.2M	\$24.03
12	Grand Rapids / West MI	78.3M	9.7%	7.6M	\$11.45
13	Houston	280.4M	10.8%	30.2M	\$27.24
14	Indianapolis	99.1M	8.6%	8.5M	\$16.80
15	Kansas City	114.3M	11.0%	12.5M	\$17.12
16	Long Island	171.5M	8.2%	14.1M	\$26.52
17	Los Angeles	424.9M	11.5%	48.7M	\$30.30
18	Miami / Dade Co.	99.7M	11.6%	11.5M	\$29.73
19	Minneapolis	187.5M	9.1%	17.1M	\$18.56
20	Nashville	77.8M	6.7%	5.2M	\$20.59
21	New York City	558.2M	7.8%	43.4M	\$55.91
22	Northern New Jersey	359.1M	14.0%	50.1M	\$23.84
23	Orange County (CA)	153.4M	10.5%	16.2M	\$24.55
24	Philadelphia	405.1M	10.8%	43.8M	\$21.80
25	Phoenix	161.7M	16.9%	27.4M	\$21.19
26	Pittsburgh	124.3M	8.1%	10.1M	\$20.61
27	Portland	95.7M	8.1%	7.8M	\$20.90
28	Richmond	60.6M	10.0%	6.0M	\$17.12
29	Salt Lake City	90.5M	6.7%	6.1M	\$18.25
30	San Diego	113.3M	11.2%	12.7M	\$28.16
31	San Francisco	161.7M	7.4%	12.0M	\$45.84
32	Seattle/Puget Sound	184.5M	9.0%	16.6M	\$29.13
33	St. Louis	130.1M	10.5%	13.6M	\$18.02
34	Tampa	147.2M	11.5%	16.9M	\$18.81
35	Tucson	24.3M	12.6%	3.1M	\$18.37
36	Washington, D.C. Metro	466.2M	14.5%	67.5M	\$34.46
37	W Palm Beach / Palm Beach Co.	54.8M	14.5%	7.9M	\$26.29
38	Westchester County, NY	168.9M	12.9%	21.8M	\$28.28

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

Toronto

Fourth Quarter 2014

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent
39	Toronto	71.9M	9.5%	6.84M	\$20.34

London

Fourth Quarter 2014

	DISTRICTS	Take Up	Grade A Vacancy	Prime Rent
40	City Core	1.30M	4.40M	£62.50
41	London Docklands	0.40M	1.10M	£40.00
42	London Southbank	0.70M	0.80M	£55.00
43	London West End	1.20M	3.60M	£112.50
44	London Midtown	0.60M	1.35M	£67.50

Paris

Fourth Quarter 2014

	DISTRICTS	Take Up*	Vacancy	Prime Yield	Prime Rent*
45	Paris Central Business District (CBD)	0.089M	5.3%	4.00% - 4.30%	€720
46	Paris Central Districts excluding CBD	0.017M	6.6%	4.90% - 5.50%	€450
47	La Défense	0.109M	11.0%	5.30% - 6.50%	€540
48	Western Suburbs	0.128M	14.0%	5.20% - 6.25%	€400

Definitions for Paris

**Take Up* – Space absorbed in the previous quarter in m²/ *Grade A Vacancy* – Available Space / Euros / m²

Brisbane

Fourth Quarter 2014

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent*
49	Brisbane	2.200M	15.0%	0.333	\$59.45

*Definitions for Brisbane Average Gross Rent/\$USD

Perth

Fourth Quarter 2014

	CITY	Total Square Feet*	Vacancy*	Available Space*	Average Rent*
50	Perth	17.268M	11.8%	2.175M	\$65.00

*Definitions for Perth Latest Statistics are July 2014 Figures Average Gross Rent/\$USD

ITRA Global Announces New Board of Directors & Officers

ITRA Global recently announced that Chris Atwater, CCIM, MAI, president of Michigan Commercial Space Advisors / ITRA Global Grand Rapids, was elected chairman of the board of directors for 2015. Mr. Atwater served as director in 2014 and is excited about leading the organization. During a time when many organizations are continuing to downsize, ITRA Global remains one of the largest international corporate real estate services organizations devoted to representing tenants and buyers of corporate space.

"I am honored that my fellow board members have asked me to serve in the role of Chairman of the Board," says Mr. Atwater. "ITRA Global remains one of the few organizations that truly advocates for corporate tenants and buyers of office, industrial, and retail space. I look forward to continuing a tradition of excellence that has been established by my predecessors, and I am also excited to oversee our expansion into additional national and international markets."

Chris Atwater has thirty years of commercial real estate experience. He gradu-

ated from Kent State University with a degree in real estate and spent fifteen years as a commercial real estate appraiser, ultimately attaining the prestigious MAI designation by The Appraisal Institute and became a partner at Schultz, Carr, Bissette and Atwater in Atlanta, Georgia.

After relocating to Grand Rapids in 1991, Mr. Atwater served as an asset manager at Oxford Partners and President of Waters Corporation, a commercial real estate owner and developer. In 2008, Mr. Atwater and two partners founded Michigan Commercial Space Advisors (MCSA), Western Michigan's only full-service, exclusive tenant and buyer representation brokerage. Upon the retirement of his partners in 2012, Mr. Atwater became the sole owner of MCSA. He brings to ITRA Global the integrity and impartiality he developed as an MAI-designated appraiser and the product knowledge he refined as an asset manager and owners' representative.

Serving with Mr. Atwater on the ITRA Global 2015 leadership team are Ms. Mylinda Vick, CCIM, of Cherry & Associates / ITRA Global Nashville as Vice

Chairman; Mr. Stuart Holcombe, CCIM, of Corporate Real Estate Advisors / ITRA Global Atlanta as Secretary; Mr. Jeffrey A. Tabor of Corporate Realty Advisors / ITRA Global Orange County as Treasurer; and Mr. Gordon Rasmussen, CCIM, of Martin Property Advisors, Inc. / ITRA Global Phoenix as director. Serving as Chairman Emeriti are Ms. Debra Stracke Anderson, CCIM, SIOR, of Sloan Street Advisors / ITRA Global Washington D.C., and Mr. Ronald R. Pollina, Ph.D., of Pollina Corporate Real Estate / ITRA Global Chicago.

In other news, ITRA Global has further expanded its global reach with the affiliation of two new offices in Perth and Brisbane, Western Australia. ITRA Global / ACORPP (Australian Corporate Property and Projects) is a specialized and totally independent consultancy company providing property services to a wide range of clients in the private and government sectors. ACORPP brings together a team with the experience, expertise, and commitment to deliver a premium standard of service to property advisory and project management clients.

New Era of Office Space *Continued from page 1*

may not be portable and used within the premises to define a specific area.

Generally, creative office space in Los Angeles is notorious for high staff counts. Therefore, density has become a major topic of discussion during lease negotiations, and the usage of electricity is a hot button issue due to the number and variety of gadgets that employees use daily.

Parking, Kitchens, Dogs, and Bikes

Parking is another important issue that must be addressed in lease negotiations. Often, the standard of three parking spaces for each thousand square feet leased, or a 3/1,000 ratio, is no longer adequate and was established when the building was planned and constructed. Landlords can later go back to the city and request a modification, but this often is difficult to achieve. There are other options to ease parking shortages such as re-striping the parking lot to include more spaces, providing a valet service to jockey cars elsewhere around the building, or converting reserved parking spaces—especially those that are unused the majority of time—into unreserved ones to accommodate employee and visitor demand.

Kitchens no longer only satisfy the need for food in creative office space,

they have replaced conference rooms as significant topics of negotiation. The "style" and "brand" that the organization wishes to display to the world are now imprinted in the kitchen area. Often the kitchen will be the central point within the premises, no longer relegated to an interior windowless room. It has become the premier lounge location. Kitchens are now gathering areas to work, create, and collaborate.

In the Rules and Regulations section of a lease, tenants will normally see the prohibition of dogs, but creative office users are big on dogs. This can be a difficult but humorous negotiation. We just completed a lease that hinged on how many dogs are allowed into the building, how many times per week one dog can enter the office, and how much they can weigh. There is usually a prohibition on bicycles—the transportation mode of choice for the creative office user—inside the building. Institutional ownership of buildings is more challenged to achieve a comfort level with permitting dogs versus bicycles, where the landlord provides racks, and bikers provide the locks. These days we're also seeing new buildings featuring restrooms with lockers and showers.

Window lines are also critical because users want to be as close as possible

to the outside environment and natural light. Tenants want easy access to parking and amenities. Restaurants within walking distance are a must. These features drive company morale, which generally results in a more productive workforce.

Multi-story buildings constructed in the 1970s are inherently challenged to accommodate creative office space given the architectural design that was popular then and their location in "concrete jungles," but we are seeing large, single-story industrial buildings redesigned for creative office space. Additional parking and exterior green areas for gathering are also being incorporated into these projects, but they are priced at considerably higher rental rates.

Conclusion

The world of corporate office space continues to evolve, but a few years ago it was hard to imagine that a transaction would come down to how many dogs may visit your office per week and how much they are permitted to weigh. While it sounds like this "could only happen in Los Angeles," the trend of creative office space has spread to San Francisco, Seattle, Houston, Chicago, New York City, and Miami—so get ready for a new and fascinating era of office life.

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Corporate Real Estate Strategies

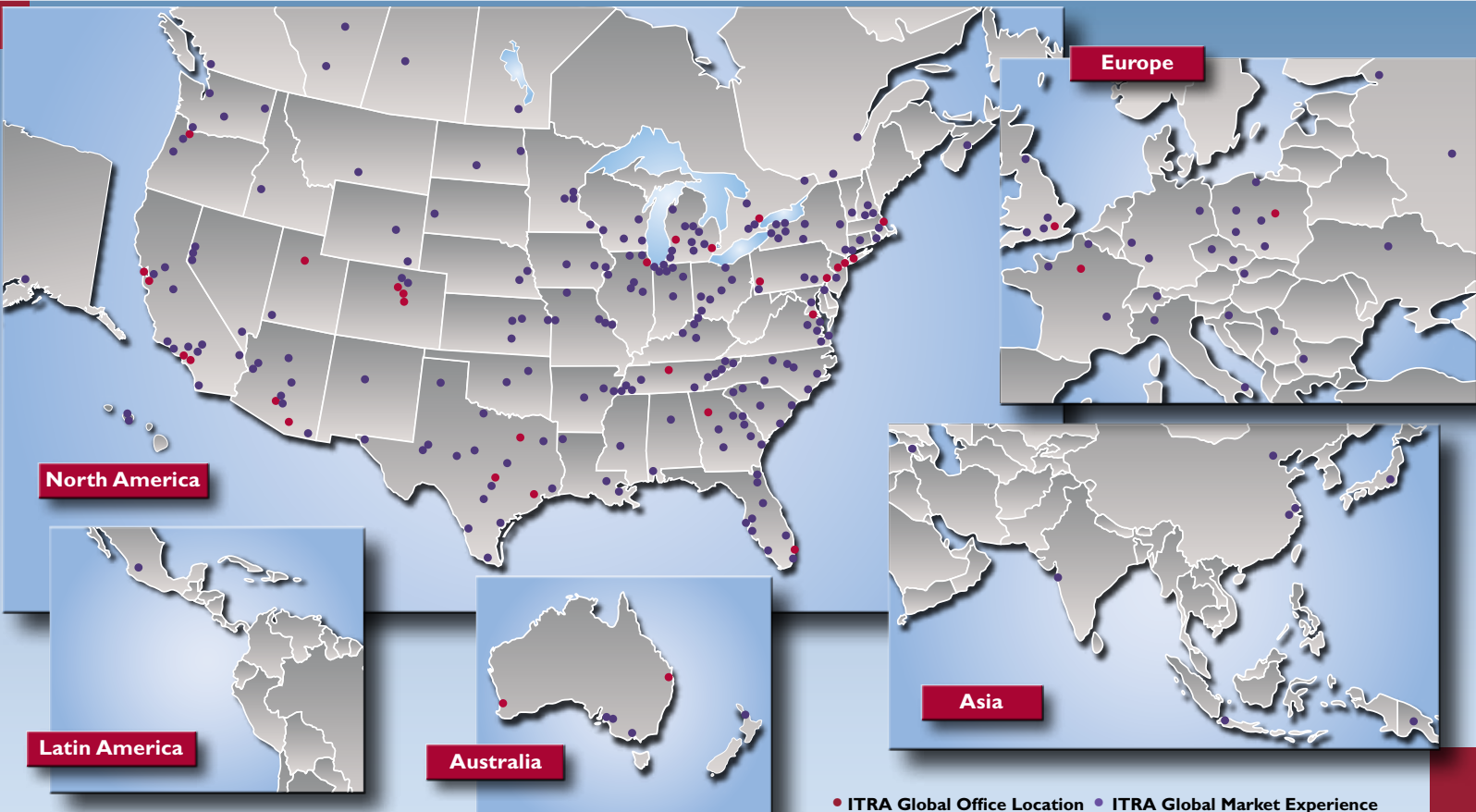
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