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What Office Tenants Want

Learn Which Factors Are Crucial in Office Space Decisions.

by Roxanna Guilford-Blake

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Despite the fluctuating economy and current design trends, two factors remain constant when tenants select office space: cost and location. But in today's market, other factors also influence the decision-making process. From turnkey buildouts to shorter lease terms to adaptive work space, office tenants want flexibility, functionality, and responsiveness.

Tenants also want value, and a down market is a good place to find it. Due to the abundance of office space in most markets and many companies' consolidation of their employees into fewer square feet, most tenants today are spending less for their space, says Barry Spizer, CCIM, principal of SRSA Commercial Real Estate in Metairie, La. An exception is small tenants that have less negotiating leverage, so their costs can be somewhat higher, he says.

In today's environment, offering the best financial deal is no longer enough to secure tenants, since many "are more than willing to spend the money in order gain operating efficiencies," says Gregory C. Hobbs, CCIM, owner of Olympic Properties in Raleigh, N.C. Instead, landlords need to educate tenants (and potential tenants) about the space's footprint, the potential costs over and above the lease price, and other factors that help them "make the best decision they can make," says Kimberly Surratt, a senior project designer at Dallas-based WorkPlaceUSA.

On the other hand, knowing what tenants are looking for helps landlords anticipate their needs and keep space filled. "Landlords working hardest to stay informed are the ones who will keep cash flow high," says Norman G. Marquardson, CCIM, an agent with Prime Commercial in Midvale, Utah.

Ready for Change

"Flexibility seems to be the key word for the offices of the future because businesses are changing so fast," says Michael Orr, architectural team leader and vice president of WorkPlaceUSA. Tenants view their companies as growing organisms, and they don't want spaces that inhibit growth. They prefer facilities that can be adjusted to fit their current *and* future business needs, from movable walls to buildouts.

"Landlords should remember to market their space as flexible," Spizer says. Even if furniture already is in place, landlords should provide space-planning services to show how offices can be configured to meet tenants' needs, he says. Computer-aided drawings make it easy to generate space plans that illustrate how the new space will look and feel.

In today's market, "Tenants dictate exactly what they want," and they are willing to pay for it if they have to, Marquardson says. Overall, improvement costs are

going up. “Many owners are pushing those costs through to the tenant as part of their buildout cost,” Spizer says. “While allowances are increasing due to the competitive economics of office deals, tenants are still having to come out-of-pocket and pay for a portion of the buildout or at least amortize it on top of their rent.”

But tenant expectations vary from market to market. In Knoxville, Tenn., more tenants expect landlords to provide turnkey offices for new leases so they don’t incur any out-of-pocket improvement costs, says Louise R. Fogarty, CCIM, CPM, leasing manager for Blue Ridge Development. “This is a more common concession than offering free rent or a reduction in the rental rate,” she notes. “Tenant improvement allowances are usually in the \$12 per square foot to \$20 psf range, but a turnkey buildout can average \$22 psf to \$32 psf depending on the level of finishes, so this can be a significant concession.”

No matter how the space is configured and who pays for improvements, leases should be as flexible as possible. Tenants are cautious about making long-term leasing decisions, especially until the economy stabilizes. They want “the flexibility to cancel or downsize, even if they have to pay a penalty to do so,” Fogarty says.

Moving Toward Open Space

Office design today is about efficiency, flexibility, and shared spaces. Tenants seek higher-density offices with communal areas, open space, and fewer private offices. “Tenants want anything that will make their operation more efficient,” says Michael Hickok, a partner at Hickok Warner Cole Architects in Washington, D.C.

As a result, function drives form, mainly due to the evolution of modern workplaces. One obvious manifestation of this is shrinking private office space. Today, the types and sizes of private offices increasingly are determined by the tasks that need to be completed, Orr says. It’s not who you are; it’s the work you do.

Past indicators of success, from the executive washroom to the big corner office, don’t have the same cachet today. “After the Enron fallout and general falling corporate credibility, companies want to look lean and mean,” Marquardson explains.

For example, a decade ago, law offices averaged 1,400 sf per attorney, but today they are less than 700 sf, says Ronald W. Russell, CCIM, CPM, president of Ronald W. Russell Real Estate in Philadelphia. Some of this can be attributed to technological advances. LexisNexis databases have replaced space-consuming law libraries, and computer-savvy attorneys do a lot of work that previously they assigned to assistants; thus, several attorneys now can share one assistant.

Private offices aren’t just getting smaller; many are being replaced by common spaces. A few years ago, architects designed buildings that maximized the number of corner offices, Hickok says. But today, simple rectangular floor plans are more popular, as they represent opportunities for more effective use of the space. “We are seeing more huddle rooms, large break rooms, and conference rooms in the prime corner locations,” Spizer says. This efficient style holds down rental costs, while encouraging employees to work together in central shared spaces.

Many tenants also want designs that allow for centralized support services such as copying and faxing centers, kitchens, and mail areas to encourage employees to come out of their offices, increasing incidental contact and communication. Managers want to be in a more open environment where they can see and be part of the interaction; they view themselves as part of the workplace community, not outside of it. “The sociology is really changing our interiors in corporate

America,” Surratt says.

Perhaps to make up for the lack of private offices, phone booths — small private spaces where employees can make phone calls — are popping up. Hoteling, or providing plug-and-play stations for shared use, also is gaining popularity. Employees who travel, telecommuters, and others simply can set up shop at a desk for a day or a week. Economically, dedicated spaces for people who may be in the office only a few days a month don't make sense, Surratt says.

One of the most significant drivers of the move to open, functional work spaces is the information technology revolution. Conventional dial-up access is out. “Tenants are demanding high-speed Internet access, at least digital subscriber lines and preferably T1 lines,” Spizer says.

Many tenants aren't content with one Internet service provider; they want a choice of at least three providers, Russell says. And some ask for secure fiber-optic access because they don't want it to come up through a public area, Orr reports.

Technology needs vary widely: Some tenants want a complete plug-and-play setup, with access costs built into the rent, Marquardson says. On the other hand, some tenants complain about having to go through the property manager for Internet access, Hobbs says. Wireless offices are the next frontier. “As we move forward, tenants will demand wireless access, but most markets aren't there yet,” Spizer says.

Interestingly, while IT access demands are on the rise, support services, such as server rooms, are increasingly located off site, further reducing many tenants' need for office space.

Taking Care of Business

Tenants increasingly want landlords to anticipate what they want — ranging from secure environments to nearby restaurants to clean, comfortable workplaces — and to solve their problems as quickly as possible. Tenants have a greater awareness of landlords that take care of their lessees and those that demonstrate a give-and-take attitude. Landlords with reputations of being inflexible frequently eliminate themselves from the competition.

Security. Experts are divided on how much security matters to today's tenants. To some extent, location and type of business dictate the level of concern. Overall, though, security influences tenant decisions only minimally, says John A. Gates, president of southwest corporate services for the Staubach Co. in Addison, Texas.

Nevertheless, many tenants are more sensitive about security issues. “In light of the heightened threats of Sept. 11, 2001, tenants want to know how the landlord is protecting the building,” Spizer says. Even in Raleigh, potential tenants want to know the protocol for shutting down a building's fresh air intakes, Hobbs says.

Across the board, the security tenants can see is what really matters. For instance, lobby security is becoming more important, Hickok says. Most Philadelphia office high-rises have enhanced lobby security, including visitor sign-in sheets, but there isn't much additional concern in the central business district, Russell says. Connected covered parking also is becoming more important for employee safety, Spizer says.

Key cards are increasingly *de rigueur*. As more tenants want 24/7 access, the use of a single key card for both parking and building access is more important.

Amenities. While they carry less weight than during the dot-com boom, amenities still can provide an edge. “Having on-site food services, banking, health-club facilities, and gift shops certainly can have an impact on the decision to locate in a certain building,” Fogarty says.

Restaurants also are popular in both urban and suburban settings, with one caveat: Tenants don’t want food-preparation smells wafting into their offices, Marquardson says. But whether the restaurants are inside or nearby, ready access to food is important.

Redundant Power. Tenants now demand multiple power sources to ensure reliability due to the increased use of sophisticated technology.

A common solution is connecting each building to two separate grids: If one goes down, the other provides a backup power source. In some office parks, different areas are connected to different substations. The ideal is a site served by multiple providers, says Jay Ballou, a senior vice president at WorkPlaceUSA. He has placed clients in facilities that have dual feeds — one from nuclear, one from gas.

Generators are helpful for small outages; however, it’s unusual for a building developer to provide enough emergency backup for more than a few minutes, Ballou says.

Maintenance and Operations. From office temperature to elevator speed, tenants want a problem-free environment. But if problems do happen, they want them resolved quickly.

One trend helps address this demand: online notification systems through which tenants can report problems and track response status, Ballou says. Such sophisticated approaches not only speed the process but also are a big plus, especially regarding tenant retention.

Three maintenance and operations complaints dominate: heating, ventilation, and air conditioning; cleanliness; and elevators.

Most HVAC-related complaints concern temperature. Proper airflow and equal distribution is the most important operating issue, explains Brian D. Lee, managing director with Insignia/ESG in Long Island, N.Y. Tenants want to manage their own office temperatures, including running the air-conditioning system after business hours at reasonable rates, Russell says.

A related concern is air quality. Proper ductwork is essential, Lee says. Adding flex ducts and diffusers to existing ductwork in renovated space can lead to inadequate airflow and tenant discomfort. “In this case, what you can’t see *can* hurt you,” he warns. Building managers should provide the protocol for indoor air quality when they are showing space to potential tenants, Russell advises.

Lack of cleanliness also can drive tenants away. Common area bathrooms should be cleaned three times daily and day porters should spot clean the lobbies and other common areas, Lee says.

Elevator performance is high on many tenants’ lists as well. A long wait to go up is a quick way for a landlord to go down in a client’s estimation. Floor-to-floor travel time, door opening and closing speeds, and the number of elevators matter most, Russell says.

Decision-Making Intangibles

Many experts stress the intangibles involved in the decision-making process, and

the most important is reputation.

“Quality of landlord enters into the decision,” when 30 properties meet the basic specs, Marquardson says.

Russell agrees, although he’s never had a client express interest in a building simply because of the management company or ownership. If all other factors are equal, and the decision is between two buildings, he suggests clients choose the one with a stable ownership history.

However, it’s often not the *good* reputation tenants remember. Certain buildings, owners, and property management companies develop reputations for having problems. “A good reputation may not help you, but a bad one will kill you,” Russell warns.

Reputation isn’t the only intangible that influences tenants looking for office space. More than ever, “first impressions are absolutely huge with tenants,” Ballou says. For instance, while curb appeal and landscaping rarely rank high on a tenant’s must-have list, a potential site can fall out of favor if the grass is dead or the sidewalk littered. A poor first impression can be costly when a tenant has 20 options instead of two.

That first visit carries a lot of weight. “When you get a client in front of you, you may only get one shot,” Marquardson cautions.

Roxanna Guilford-Blake is an Atlanta-based free-lance writer. She has written for CIRE about seniors housing.

Location, Location, Location

When tenants look for office space, only money plays a greater role than location; and, for the most part, the factors that determine location have remained constant over the years. Following are four criteria tenants cite as critical to the location decision.

Proximity to the Boss. Where the chief executive officer lives still matters, says Jay Ballou, a senior vice president at WorkPlaceUSA in Dallas. “In major markets such as Dallas that have multiple suburban submarkets, many of which are 15 to 20 miles apart, executives concentrate on the submarket closest to their houses, which may not be as close for the majority of employees,” he says.

Access to Current and Potential Employees. While companies want to be reasonably close to their workers, access matters more. Most experts identify highway access as an important factor, especially in terms of workforce, but the level of importance varies by industry. For instance, when he represented a national retailer looking for a central office, easy highway access was critical, since employees regularly visited the company’s stores in the area, says Norman G. Marquardson, CCIM, an agent with Prime Commercial in Midvale, Utah.

Due to rising gas prices, congested freeways, longer commutes, and parking considerations, access to mass transit — especially for companies based in central business districts — is significant. Tenants seeking higher-density offices are putting a strain on parking areas, even in the suburbs: “Three spaces per 1,000 square feet was a typical parking ratio for many suburban office buildings. Now we need five to six spaces per 1,000 sf to handle these [higher-density] users of office space,” says Barry Spizer, CCIM, principal of SRSA Commercial Real Estate in Metairie, La. In Raleigh, N.C., tenants will move because of

inadequate parking, says Gregory C. Hobbs, CCIM, owner of Olympic Properties. Suburban tenants are more likely to expect parking to be included in the lease than are those in the city, Ballou says.

Proximity to Customers or Clients. Being near clients is still important, but less so than a few years ago due to increased use of technology that makes some face-to-face meetings less critical, says Ronald W. Russell, CCIM, CPM, president of Ronald W. Russell Real Estate in Philadelphia.

Proximity to Restaurants and Retail. Tenants want ready access to restaurants, not just to eat, but also to entertain clients. Being able to walk to restaurants or stores is ideal, Hobbs says. In large suburban office parks, it can be a hassle just to go out to lunch, which can be a strike against the property. For example, a state-of-the-art office complex near the Salt Lake City airport has everything going for it — except access to retail and restaurants. It sits empty, Marquardson says. Being isolated from retail and restaurants even is a security issue: “If you are a 24/7 operation, you don’t want to be at the back of an office park,” Hobbs says.

Nonprofits: Image Matters

Image may not be important for most companies looking for office space right now, but it’s still a significant consideration for nonprofit organizations.

“The perception of value is important,” says Paul G. Wolf, a principal at Denham Wolf Real Estate Services in New York City who specializes in representing nonprofit tenants. Nonprofits want to create a certain image for their funders, and what the funders may think of the office space has a profound influence on the site-selection decision, he explains. In fact, form may take precedence over function in order to create the *appearance* of function over form.

Why? Funders want to know that the money is being spent on the mission, not the office. For instance, social services groups may take less space than they need in order to look cramped, Wolf says. One of his clients actually wanted the air-conditioning unit in her office, so while the rest of the building had 10-foot ceilings, hers were 7 feet.

Many nonprofits want to be near other like-minded organizations, and highway and public transit access is just as important as it is for other tenants. Airport access is a factor as well if the organization has a national or international mission.

Security and access for night staff are significant considerations because nonprofits’ employees may be less likely to adhere to traditional 9-to-5 schedules.

Amenities such as landscaping or restaurants aren’t important, and maintenance and operations play a lesser role. “Nonprofits have a greater tolerance for problems with the building,” Wolf says. They are more likely to make do and work with the maintenance staff to address problems. The exception is international organizations that may have high-profile guests or dignitaries frequently visiting the office.

Many nonprofits see office space as a tool. “For [them], the bottom line is mission-driven,” he says. If you can understand their mission and how that drives their office needs, you have an edge, Wolf says.

And for the savvy landlord, there is a payoff: Nonprofits tend to be more stable tenants than completely market-driven organizations. “Nonprofits bring tremendous value to a building,” Wolf says.

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