You need to find some commercial real estate, and need it soon. You’ve outgrown your current space and it’s starting to hurt your productivity. What should you be looking for? What are the pitfalls?

Begin your search for commercial space early. In fact, you should always be on the lookout for a better space. When you are about a year from having to move, it’s time to get serious and contact your commercial real estate agent. Whether buying or leasing your next space, it can take a long time for everything to work out. If you want to buy your space or building, it can be a very long process. Appraisals for commercial property regularly take twice as long as for residential property. It may take much longer to close. A commercial lease is also not a simple affair, they often are 10-13 pages long. There are many points of negotiation that can work to your advantage or disadvantage. Changes in use of an existing building often necessitates use permits or variances from local planning and zoning authorities. This can be a long, seemingly interminable process.

When evaluating any new space, there are a number of questions about suitability to ask: Is the space large enough? Does it have enough room to accommodate the business you hope to be doing in a few years? Is the construction in good shape? Is it fire-proof? Is there adequate plumbing and wiring? Are the windows suitable for displaying your merchandise? What are the sign regulations? Are there adequate storage and receiving facilities? What is the traffic, and the traffic’s willingness to stop?

The Lease

Before you sign any lease, make sure you KNOW:
• as much as possible about the property, and have thoroughly examined it for suitability.
• the duration of the lease, the amount of rent, and the date it’s due.
• what the lessor will do to make your space usable, and what you must do yourself (carpet, fixtures, etc.).
• subleasing, subletting and assignment arrangements.
• provisions in event of fire, flooding or other natural disaster.
• mutual obligations for repair and maintenance.
• provisions for interior and exterior signage.
• rights of removal of fixtures.
• options and renewal arrangements.

Rent

The amount of the lease or rent to be paid is generally an annual sum, payable in monthly installments. It sometimes may be set as a percentage of store sales. In any case, the entrepreneur should think of rent as a percentage of sales. Generally, you should plan on paying between two and 10 percent of your anticipated sales for retail businesses. Service businesses can pay more, since they have little merchandise cost.

Location

The old saying that the three most important considerations in real estate are location, location, and location are particularly true for commercial real estate. You need to know how much you will depend on traffic, and whether the location will generate that. Look before you leap, and use all the professional help you can get. Some assistance from a knowledgeable consultant or commercial real estate broker in the negotiations can save you thousands of dollars over the life of your lease.

Will Stewart is an independent office management consultant.

Effective Evaluations of Future Office Space Can Help Your Business

By WILL STEWART

This special advertising supplement did not involve the reporting or editing staff of the Los Angeles Business Journal.
Modest Growth Expected in Commercial Real Estate Markets

A stronger labor market and increasing household formation provide commercial real estate demand on a gradual incline, according to the National Association of Realtors’ (NAR) commercial real estate market forecast. National office vacancy rates are forecast to slightly decrease 0.1 percent over the second quarter of 2016. Commercial space slowly improves. The vacancy rate for industrial space is expected to decline 0.3 percent and retail space 0.4 percent as manufacturing output increases and low gas prices and slight income gains boost consumer spending. An influx in new apartment construction is forecast to cause an uptick (0.1 percent) in the multifamily vacancy rate.

Lawrence Yun, NAR chief economist, says commercial rents have risen at a moderate pace across the board for several quarters now and vacancy rates have been on a gradual decline. “The commercial real estate sector is on the path to recovery, but subpar economic growth, lack of financing available to small investors and the industry trend towards squeezing more employees into existing space will keep demand from meaningful acceleration,” he said. “The exception is multifamily housing, which remains the best performer with vacancy rates under 4 percent in several markets in the Northeast and in California.”

According to Yun, job growth and increasing household formation among young adults is supporting continued, robust demand for apartments. However, vacancies are expected to slightly rise over the next year as a higher-than-anticipated climb in multifamily completions is coming onto the market to meet that demand. Looking ahead, Yun expects the economic outlook to remain strong. “Similar to last year, economic growth will likely rebound as the year progresses, although perhaps not as robustly as what was seen in 2014. However, as long as jobs are being added at a respectable pace, gradual increases in demand for commercial spaces and leasing projects should continue.”

NAR’s latest Commercial Real Estate Outlook offers overall projections for four major commercial sectors and analyzes quarterly data in the office, industrial, retail and multifamily markets. Historic data for metro areas is provided by BES Inc., a source of commercial real estate performance information.

According to NAR’s recent 2015 Commercial Leasing Trends Survey, Realtor commercial members in the past year managed transactions averaging $1.6 million per deal — frequently located in secondary and tertiary markets — and focused on small businesses and entrepreneurs.

Office Markets
Office vacancy rates are forecast to slightly decline from 15.6 percent in the second quarter to 15.5 percent in the second quarter of 2016. The markets with the lowest office vacancy rates in the second quarter are New York City, at 8.9 percent; Washington, D.C., at 9.0 percent; San Francisco, at 10.6 percent; and Little Rock, Ark., and Portland, Ore., at 11.6 percent.

Office rents are projected to increase 3.4 percent this year and 3.7 percent in 2016. Net absorption of office space, which includes the leasing of new space coming onto the market as well as space in existing properties, is likely to total 51.8 million square feet this year and 60.0 million in 2016.

Industrial Markets
Industrial vacancy rates are expected to fall from 8.4 percent in the second quarter to 8.1 percent in the second quarter of 2016. The areas with the lowest industrial vacancy rates currently are Orange County, Calif., with a vacancy rate of 3.4 percent; Los Angeles, 3.6 percent; Miami, at 5.3 percent; Seattle, at 5.4 percent; and Palm Beach, Fla., at 5.5 percent.

Annual industrial rents should rise at a clip of 3.1 percent both this year and in 2016. Net absorption of industrial space nationally is expected to total 108.8 million square feet in 2015 and 104.9 million square feet next year.

Retail Markets
Vacancy rates in the retail market are expected to decline from 9.6 percent currently to 9.2 percent in the second quarter of 2016. Currently, the markets with the lowest retail vacancy rates include San Francisco, at 3.0 percent; Orange County, Calif., and San Jose, Calif., at 4.6 percent; Fairfield County, Conn., at 4.7 percent; and Long Island, N.Y., at 4.9 percent.

Average retail rents are forecast to rise 2.6 percent this year and 3.1 percent in 2016. Net absorption of retail space is likely to total 15.8 million square feet this year and jump to 21.1 million in 2016.

Multifamily Markets
The apartment retail market should see vacancy rates slightly increase from 4.3 percent currently to 4.4 percent in the second quarter of 2016. Vacancy rates below 5 percent are generally considered a landlord’s market, with demand justifying higher rent.

Areas with the lowest multifamily vacancy rates currently are San Bernardino-Riverside, Calif., at 2.5 percent; Sacramento, Calif., 2.6 percent; New Haven, Conn., and Providence, R.I., at 2.7 percent; and Cleveland, Ohio, Oakland-East Bay, Calif., and San Diego at 2.8 percent.

With an influx of new supply coming onto the market, average apartment rents are projected to increase 3.6 percent this year and at a slower pace of 3.3 percent in 2016. Multifamily net absorption is expected to total 172,524 units in 2015 and 153,747 next year.

The NAR commercial community includes commercial members; commercial real estate boards; commercial committees, subcommittees and forums; and the NAR commercial affiliate organizations — CCIM Institute, Institute of Real Estate Management, Realtors Land Institute, Society of Industrial and Office Realtors, and Counselors of Real Estate.

The National Association of Realtors, “The Voice for Real Estate,” is America’s largest trade association, representing one million members involved in all aspects of the residential and commercial real estate industries.

Finding and Inspecting Your Space

By TIM RUSSELL

P USING the right property in residential real estate is a little easier than in commercial real estate. For one thing, many residential properties are not listed in the multiple listing service. This makes it difficult to actually see everything that is available. Agent commissions in commercial real estate are much more negotiable than in residential real estate. They’ll also be able to help you determine the properties that are zoned for the type of business you’re in planning to use them for. Parking requirements, advertising regulations, etc.

Classes of Office Space
Office space is divided into three classes — Class A, Class B, and Class C. The classes are just what you imply, that is higher quality at the A end and lower quality at the C end. The classes are based on the age of the building, the type of construction, the location, the amount of renovation, and the amenities that the building provides. You must also run across what is now being referred to as Class E Office Space in some cities. These are older buildings that are being considerably renovated to become spaces with a totally different look. They usually have been renovated, lots of large windows, and lots of wood. They seem to appeal to the high tech and dot-com groups. (Hence the “E” designation.)

The dollars per square foot will vary quite a bit from one class to the next, so consider the amenities, location, as well as what you look for you need before starting your search.

See as many spaces as you can, and pull the list you created during the planning process. Make sure you have prioritized the features that are most important to you and your business, and give them the most consideration when looking over the properties. Don’t let yourself be blinded by one spectacular feature in a property when some of the other equally important features are less spectacular than what you need. You can even create a scoring system to help you compare each property equally.

Regardles of the system you use, take notes about the pluses and minuses of each site, and take photos to help you keep them straight in your head. Visit the sites on your short list often and at different times of the day to observe the changes in traffic, noise, and other potential problems. Don’t let your emotions rule your decision.

Don’t forget to also investigate “build-to-lease” options also called “build-to-suit leases”. If you find the right developer you can tailor the space to your needs and then lease it. This option will require a lot of work on your part to make sure you’re getting the quality and the finishes that will suit your needs. Keep in mind too, that the developer you work with will probably not own the building for the length of your lease.

Inspect the property
You’ve found a good spot — you think. You like the location. It’s passed all of the tests so far. So what else do you have to look at before you sign on the dotted line? Here are some things to make sure are on your list of questions. First of all, how old is the building? With age can come problems and difficulties in incorporating new technologies. Are there structural problems? Talk with other tenants and see if they’ve had any problems either with the building itself, or even with the landlord. Does the roof leak? How old are the HVAC systems? Will you be dealing with periods of no air in the summer and no heat in the winter? Is it wired for computer networks, internet access, or other electronic items? If not, will you have difficulty wiring it because of the types of wall materials or ceiling?

Is there adequate security? Security features can include:

• steel doors
• security gates that fold out of the way during office hours
• metal systems that can be monitored by a security firm or the local police department
• steel security doors
• bullet-proof glass
• fenced parking
• external lighting all around the building
• security guards

If you find the property you want, have your lawyer review the contract and make sure there is no environmental contamination that you will be dealing with. Sometimes there is none — the building is clean. Sometimes the lender institute you are getting your loan from will require it.

So what do these assessments entail? A Phase I assessment involves reviewing the past uses of the land, and government environment records concerning the property, and a simple observation of the property. If this first assessment shows up any potential contaminations or problems then a Phase II assessment is needed. Phase II involves air, water, and soil samples. The third type of assessment, sometimes referred to as a Transaction Assessment, only takes into account the use you are proposing for the site. It does not take into account any past uses or problems. This is the assessment you would need if the site has previously passed a Phase I assessment and had no problems.

It is also recommended by most in the real estate profession that any property, whether it is being leased or purchased be inspected by a professional inspection firm.

Tim Russell is a freelance writer.
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Negotiate a Successful Commercial Real Estate Lease With Confidence

BY WALTER COLLIERS

there is one thing missing from the “tenant toolkit” in a typical office leasing arrangement, it is the necessary education and/or experience to understand the deal.

In that the average executive will only negotiate a handful of leases over the course of an entire career, competence is often difficult to achieve. While hindsight is always 20/20, the learning curve is just too steep. Learning by making mistakes can be extremely costly. As a result, a company’s representative (i.e. owner, office manager, etc.) will usually seek out advisors (i.e. real estate brokers, attorneys, etc.) to assist in the process. This can be something of a hit or miss scenario, since many tenants may not even know enough to properly evaluate the skills of the individuals offering them assistance. Tenants must work to educate themselves so that they become proactive participants in the process of leasing space, rather than merely spectators at the mercy of their chosen advisor’s level of competence.

An attorney is a key member to the team but many tenants fail to seek out this type of expertise. In our experience, an astounding 90% of the smaller tenants (i.e. those occupying under 10,000 square feet of space) choose not to engage an attorney and often times the landlord is far too late in the negotiation process to be 100% effective. When issues arise late in the negotiation, the landlord will often feel that the tenant is attempting to re-trade the deal and become resistant to making changes that are detrimental to his position. The attorney’s role, as a result, is often limited to reviewing language as necessary to insure that the lease reflects the already fully negotiated business points of the transaction. Clearly, involving an experienced real estate attorney throughout the entire process can help to ensure that all the important issues are in focus early on in the negotiation.

"Well, isn’t this where an experienced real estate broker steps into the lease edge gap?" In response, I would simply ask how a tenant, who may themselves possess limited knowledge, can properly assess the skill sets that a real estate broker brings to the table. While a competent real estate broker will be generally knowledgeable with regard to the issues, it is our experience that only the very best could provide a thorough explanation of both the landlord and tenant considerations when negotiating most lease clauses. Below are a few examples of what you should know about the lease document when it comes to leasing commercial real estate leases.

Sample Tenant Considerations:

- Often people who are starting a new business intend to incorporate but have not actually done so at the time the lease is signed. What are the ramifications should this occur?
- Landlords often tie increases in base rent to the Consumer Price Index (CPI), is there any rationale for this? What are some of the common pitfalls in CPI operating expense escalation clauses?
- When does a percentage increase in the rent result in an undue windfall for the landlord?
- Why do many “standard form” leases deal with operating expense and property tax escalations separately? Why should a tenant object?
- If you are a 501C corporation, how can you seek financial benefit from your non-profit status?
- In a newly constructed property, why would the tenant often request a “net” or “$0.00 dollar stop” lease?
- Which is better for the tenant, a lease that does not have a “gross-up” operating expenses or one where the “gross-up” is calculated as if the building were 95% leased?
- What are the 20 items that the careful tenant most frequently requests be excluded from the definition of “operating expense”?

What successful strategies do sophisticated tenants utilize in seeking to limit their potential exposure for holding over at the end of the lease term?

Many leases provide for the landlord to be able to relocate a tenant to “similar” space. If the tenant is unsuccessful in striking the clause outright, what are the tenant concerns that should arise?

When the landlord says “It’s our decision a leader will make. We present here a list of the most common mistakes made in site selection.

A survey of economic development professionals was recently conducted here in Southern California, asking them to list the most common mistakes made by relocating companies. Their responses, ranked from most to least common, are listed below.

- Not allowing adequate time to fully understand the tenant’s negotiating positions?
- Tenants often involve their attorney far too late in the negotiation process to be 100% effective. When issues arise late in the negotiation, the landlord will often feel that the tenant is attempting to re-trade the deal and become resistant to making changes that are detrimental to his position. The attorney’s role, as a result, is often limited to reviewing language as necessary to insure that the lease reflects the already fully negotiated business points of the transaction. Clearly, involving an experienced real estate attorney throughout the entire process can help to ensure that all the important issues are in focus early on in the negotiation.

- Too concerned with initial costs, such as property tax offsets, and cost of energy supplies;
- And cost of management, technical, and scientific employees in the area;
- Failure to consider availability and zoning regulations;
- Failure to consider whether highway access is adequate.
- With respect to the efficient use of square footage, how does the tenant achieve a true apples-to-apples comparison between buildings? What are the “rules” and who sets the measurement standard?
- Failure to consider the quality of life issues that are important to attracting and retaining employees?
- Failure to consider sewage treatment facilities are adequate for the proposed operation;
- Failure to consider environmental problems and regulations;
- Failure to consider quality and availability of housing in the area;
- Failure to consider all available incentive and tax relief options;
- Failure to consider whether local housing costs are compatible with salary levels of employees;
- Failure to consider whether the partnership tenant seeks to incorporate into the lease;
- Failure to consider whether airport services are accessible and adequate;
- Failure to consider whether water/steam/wastewater facilities are accessible and adequate;
- Failure to consider whether railroad services are accessible and adequate;
- Failure to consider whether highway access is adequate.

The rank ordering of the items above is a bit deceptive. Number 20 on the list is an exceptionally infrequent mistake according to the completers of the survey, but it does happen. By far, the biggest mistakes made are the first three on the list. These critical mistakes appear to be caused by time and money factors – “get it done, and get it done cheaply.” Overcoming mistakes requires adequate planning and research, and projecting into the changes in the area that will affect future costs.

This information was provided by Nelson Ingold, a writer based in Los Angeles.
New Study Shows Growth of “Sharing Economy”

As More People Share Cars, Closets and Even Kitchens, Commercial Real Estate Industry Responds

The cultural shift towards what researchers are labeling the “sharing economy” — people sharing not only cars, tools and bikes, but also kitchens and common space, has set off a wave of new building designs and features as America’s commercial real estate industry responds to the demand, according to a new white paper released last month from the NAOP Research Foundation.

“We are seeing the effects of the sharing economy across the industry, but especially in the office and multi-family sectors. Rooftop gardens and co-working centers are just two of the more visible ways in which our industry is adapting, but there are many more. Any developer starting a new project today simply has to factor this phenomenon into their planning, because the demand for these features will continue to grow,” said Thomas J. Biscacquino, president and CEO of NAOP, the Commercial Real Estate Development Association.

Companies and organizations all over the world are exploring new ways to provide access to goods and services, often through networks of individuals connected via the internet and mobile apps. These systems enable people to make use of excess capacity while avoiding or minimizing many of the burdens — storage, maintenance and operating costs — associated with ownership.

“Exploring the Sharing Economy,” by John Madden, director of sustainability and engineering, Campus + Community Planning at the University of British Columbia, examines the impacts this nascent economic force is having on transportation, food systems, housing and short-term accommodations, and commercial space.

“The sharing economy is characterized largely by peer-to-peer marketplaces,” Madden notes. “These marketplaces facilitate transactions in which individuals can share products and services directly, based on a foundation of trust.”

Key drivers that have helped catalyze the sharing economy, according to Madden, include the following:

• The internet and mobile access.
• Declining real incomes.
• Belief in the commons.
• Trust.

The white paper describes how the sharing economy is affecting personal transportation, explaining how car-, bike- and ride-sharing and ride-hailing platforms like Car2Go, Zipcar, Citi Bike, Uber and others are changing how people travel within urban areas, with potentially huge impacts on land uses. It describes how other elements of the sharing economy, including community gardens and rooftop farms, shared housing and co-housing, and short-term accommodations platforms like Airbnb and Roomarama, are also beginning to have an impact on the broader economy.

Madden also describes the sharing economy’s expansion within the commercial real estate sector. In some cases, he notes, “the goal is to make better use of fixed assets that traditionally have

been used only for certain periods of the day. The sharing economy makes better use of idle capacity by matching people with space. Many forms of shared commercial space use have emerged, including various types of shared office spaces and creative spaces.

“Shared office spaces include the executive suites many companies or individuals can rent a turnkey office or space in a shared office on a short- or long-term basis, coworking centers (which offer similar types of workspaces, typically through a membership model, and have a greater focus on community) and an emerging hybrid of the two.”

“The sharing economy has flourished in the absence of government policy drivers, incentives and regulations. It is, however, poses some challenges to local regulators, who must find a balance that protects the public interest without suppressing the potential benefits of new business models. It demonstrates that small-scale entrepreneurship and altruistic attitudes can lead to more rational uses of scarce resources while providing economic, social and environmental benefits,” the white paper concludes.

Information for this article was provided by NAOP, the Commercial Real Estate Development Association, and leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit www.naop.org.

Panel to Explore the Revitalization of Downtown Los Angeles

DOWNTOWN Los Angeles has gone from a ghost town to a boomtown in a relatively short period of time. In 1998, about 18,800 residents lived in the area. Over the last 16 years, the district grew to more than 54,000 residents — and the momentum continues at a feverish pace today. JUNE 15, 2015 AN ADVERTISING SUPPLEMENT TO THE LOS ANGELES BUSINESS JOURNAL

OFFICE LEASING & BUYING GUIDE

The 2015 BOMA International Annual Conference & Expo, which will take place June 28-30, 2015, in Los Angeles, is commercial real estate’s most important event of the year. This collaborative event brings together the best minds in the industry to exchange more than 50 expert-led sessions across six education tracks on topics ranging from asset management strategies to best operational practices for office, industrial and mixed-use properties. More than 400 exhibits by leading manufacturers and suppliers at the BOMA Every Building Expo will help attendees find solutions to operational challenges and best practices to enhance asset performance. The conference also will feature a performance by one of most recognizable entertainers in the world, Jay Leno, who will kick off the Sunday General Session.

Panelists will focus on the revitalization of Los Angeles and will discuss the challenges and strategies to enhance asset performance. The conference also will feature a performance by one of most recognizable entertainers in the world, Jay Leno, who will kick off the Sunday General Session.

The Building Owners and Managers Association (BOMA) International is a federation of 91 BOMA chapters, including 17 international affiliates. Founded in 1907, BOMA represents the owners and managers of all commercial property types including 10.4 billion square feet of U.S. office space that supports 1.8 million jobs and contributes $227.6 billion to the U.S. GDP. Its mission is to advance a vibrant commercial real estate industry through advocacy, influence and knowledge. Learn more at www.boma.org.

Panel to Explore the Revitalization of Downtown Los Angeles

JOHN G. OLIVER, Oliver & Company

Office Properties (Los Angeles)
• Marc Gittleman, Senior Vice President, Third Party Management, Rising Realty Partners (Los Angeles)
• Robert Newsom, FAIA, President, AC Martin (Los Angeles)

Downtown Los Angeles is an incredible case study about the powerful role that commercial real estate plays in economic revitalization. Property professionals from around the world who attend BOMA International’s annual conference can learn from the lessons of the L.A. renaissance and take the expert insights from this panel back to their own hometowns.

Downtown Los Angeles is an incredible case study about the powerful role that commercial real estate plays in economic revitalization, commented BOMA International Chair John G. Oliver, BOMA Fellow, managing principal for Oliver & Company. “Property professionals from around the world who attend BOMA International’s annual conference can learn from the lessons of the L.A. renaissance and take the expert insights from this panel back to their own hometowns.”

Just prior to the panel discussion, BOMA International President and Chief Operating Officer Henry Chamberlain, AIBR, FAIAE, CAE, will present the 2015 State of the Industry address. His in-depth annual report will focus on the performance of the commercial real estate industry, with predictions about how the industry will be affected by trends in technology, innovation, demographic shifts and more.

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