Commercial real estate markets are improving with Realtors specializing in commercial real estate reporting an increase in annual gross income, the number of sales transactions and sales volume, according to the 2015 National Association of Realtors Commercial Member Profile.

The annual study’s results represent Realtors, members of NAR, who conduct all or part of their business in commercial sales, leasing, brokerage and development for land, office and industrial space, multifamily and retail buildings, as well as property management.

“After years of slow recovery, the commercial real estate market has shown meaningful growth and our members have seen significant improvements in their business activity,” said NAR President Chris Polychron, executive broker with 1st Choice Realty in Hot Springs, Ark. “Realtors who practice commercial real estate help build and revitalize communities by facilitating investment in commercial properties that support millions of jobs nationwide. There is every indication that continued improvement to commercial markets with help stimulate economic growth for the rest of the country.”

The profile shows the median gross annual income of commercial members, which has increased steadily for the past five years, was $126,900 in 2014, an increase from $96,200 in 2013. Appraisers and brokers reported the highest annual gross income while sales agents, often newest to the field, reported the lowest. Sixty-seven percent of Realtors who specialize in commercial real estate reported they derived 50 percent or more of their income from commercial real estate in 2014.

Commercial members completed a median of 11 sales transactions in 2014, up from last year’s median of eight. Six percent reported no sales transactions, down from 9 percent in 2013. The 2014 median sales transaction volume for members who had a sales transaction was $2,916,700 - a significant increase from $2,554,700 in 2013.

Fifty-nine percent of commercial members are brokers. Licensed sales agents, at 24 percent, represented the next largest segment. A majority of commercial members reported working for a local firm, and 82 percent reported working at least 40 hours a week.

Thirty-two percent of commercial members were involved in international transactions in 2014. Eighteen percent saw an increase in international clients and only 1 percent had a decrease. Broker associates had the most experience with foreign clients with 43 percent reporting an international transaction.

Eighty-three percent of commercial members reported having a leasing transaction. The median transaction leasing volume for members who reported at least one transaction was $500,000 in 2014 – a more than 15 percent increase from 2013. The median dollar value for leasing transactions is heavily influenced by the member’s experience level.

“When it comes to leasing transactions, the report tells us that the more years of experience an agent or broker has the more high value transactions in which they are involved,” said Lawrence Yun, NAR chief economist. “The broad improving leasing trend will continue this year and next because of rising occupancy rates across all commercial property types.”

Commercial members who manage properties typically managed 75,000 total square feet, which represents 20 total spaces. Those who manage offices typically managed 25,000 total square feet, representing eight total offices.

The typical commercial member has been in real estate for 25 years and in commercial real estate for 20 years. The median length of membership in NAR is also 20 years. Additionally, 45 percent of commercial members are also affiliated with one of several commercial organizations including the CCIM Institute, the Institute of Real Estate Management, the Counselors of Real Estate, the Realtors Land Institute and the Society of Industrial and Office Realtors.

Commercial members are predominately male with a median age of 60. However, more women continue to enter the profession, as 51 percent of those with two years or less experience are female. Seventy percent of Realtors who specialize in commercial real estate have an education level of a bachelor’s degree or higher. Seventy-eight percent of commercial Realtors are married, with 13 percent being divorced, and five percent being single and never married.

The 2015 NAR Commercial Member Profile was based on a survey of 1,982 members. Income and transaction data are for 2014, while other data represent member characteristics in 2015. Approximately 350,000 commercial real estate professionals are members of NAR, making it the largest commercial organization in the industry.

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.
How the Architecture of Modern Medicine is in Stride with the Health Care System

By TIM GALLAGHER

The doctor will see you now.”

“Well, just a minute. I’m in the waiting room and I need to finish my healthy smoothie, track my exercise for the day on my phone, and check out of this chat room where I have been talking with other people who have conditions similar to mine.”

That’s not where health care is today, but how long until the architecture of modern medicine matches the direction of the health care system? Doctors and health care providers want patients to be informed, concerned with their own health and taking action to improve it. The design of medical facilities can help.

“Every day, 10,000 people turn 65, but many do not retire, and want to continue working and leading healthy lifestyles,” said Barbara Bouza, Co-Managing Director at the Los Angeles office of Gensler, an international design and architecture firm. “We are moving our system toward them. There is a shift of dollars focusing on the wellness end of the spectrum and the design of the facilities is a part of creating the right patient experience.”

It’s not only about creature comforts and making a waiting room seem as comfortable as a Starbucks. The design can actually improve the patient’s health and experience.

“It’s very simple,” said John Parker, partner in the general contracting firm of Parker Brown, “If the patient has a very good experience, then that person will want to come back to the doctor’s office for follow-ups and regular check-ups. It won’t feel like a cattle-call in crowded, uncomfortable room.”

“The guest experience is a priority. That is driving the design,” said Bouza. “Fifteen years ago it was technical and equipment and engineering driven. Now the shift is ‘What is the outcome we want for the patient?’ This is a much more human-centered approach.”

These days, financial reimbursement for many health care providers is tied to patient satisfaction. So the moves make money as well as improving mental and physical health.

Parker Brown has built dozens of medical facilities for UCLA Health Systems, Community Memorial Health Systems and the Southern California Orthopedic Institute over the past few years. And it has learned a great deal.

Partner Scott Brown said, “In a surgery center, it can be as convenient as building private places for doctors to talk to the family of a patient so it’s not one of those whispered conversations in the hallway with a lot of activity nearby.”

“Simplicity is the key,” said Bouza. “Some of the approaches we include are as clear as building natural light into the facility and integrating staircases that are open and inviting, not behind a wall and heavy door in a place that seems intimidating. But this has to come from the top. Gensler spent a year with Cedars-Sinai Medical Center doing research on what design drives the outcome they desire beginning with the user experience and wayfinding.”

Not all of the amenities are for the patients. Modern medical facilities have perks for medical care providers as well. “We are building work stations for nurses that encourage them to take a breather,” said Bouza. “If you think about a nurse’s shift and all the work and stress that go into it, do you really think the nurse is going to feel comfortable at a work station that is poorly lit, poorly organized and seems worse than the place they just came from? Doctors rely more on research than ever before in deciding a course of action. They need fast WiFi access in a setting where they can absorb it.”

Large employers are understanding that encouraging a healthy work force helps create a productive work force. “The large campus employers have walking paths that are pleasant and might even stoke some creative thinking,” said Parker.

Other very large employers can partner with a health care provider to put a health center on the business campus, making access to health care very convenient. Sony Entertainment, for instance, has health care providers on the set of film and television shoots. “They cannot afford to lose time for people to visit their doctor,” said Bouza.

Gensler went a step further when designing the Martin Luther King Medical Center campus plan in Los Angeles. “We know that the area really lacks good healthy food choices, so we built that into the plan,” said Bouza. “People with access to good health care can also do their dining or grocery shopping before they head home.”

In Southern California, where housing prices often force communities to develop in remote communities miles away from cities, mobile health care facilities and community health centers are crucial. “Kaiser is becoming a leader in retail health, creating smaller and more accessible clinics,” said Bouza. It hopes that a modern, pleasing and efficient center will bring patients in for triage and avoid expensive and long trips to an emergency room that could be miles away.

“Let’s face it,” said Brown. “A modern health care facility has to be designed and built with the patient experience in mind. It is not an amenity. It’s an expectation.”

Tim Gallagher is a partner in The 20/20 Network, a strategic communications and public relations firm in Southern California.
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Not Your Father’s Office Space

By SHERYL MAZIROW

Welcome to the brave, new world of office space in the Los Angeles market. It is comprised of neighborhoods, communities, huddle spaces, hotelsing, benching, pathways, and — above all — collaborative space. Oh, and 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, and the driver in the Los Angeles area is the desire of tenants to secure what is known as creative office space. Although originally sought only by technology firms, this trend has gone mainstream and is known as creative office space. Although originally sought only by technology firms, this trend has gone mainstream.

Today’s office space landscape is far different than it was just a few years ago, and the driver in the Los Angeles area is the desire of tenants to secure what is known as creative office space. Although originally sought only by technology firms, this trend has gone mainstream and is known as creative 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 ceiling that houses air conditioning, heating ducts, and insulation. Although the plenum is typically inattactive in appearance, it is expensive to change traditional space into an exposed environment.

Clusters of open spaces are the hallmark of creative office space versus a row of offices along the window line with secretary or staff bays on the interior in traditional corporate office space.

This open landscape is designed to promote interaction and collaboration among employees or departments, known as “neighborhoods,” within an organization. There often is no specific office assigned to a particular individual. Employees “plug in” and “log on” and perform their work task at different areas within the premises.

Private conversations take place in a “huddle” area, which is often simply an alcove. Offsite employees who drop into the office and all visitors in the office are required to check in at the building’s front office assigned to a particular individual. Employees “plug in” and “log on” and perform their work task at different areas within the premises.

Determine Your Needs

There are less obvious factors and needs to consider, for example, decorating, IT system upgrades, and so on. Zoning Regulations — These determine whether you can conduct your type of business in certain properties or locations. You can find out how property is zoned by contacting your local planning agency.

Evaluate Your Finances

Besides determining what you can afford, you will need to be aware of other financial considerations:

Hidden Costs – Very few spaces are business ready. Include costs like renovation, decorating, IT system upgrades, and so on.

Government Economic Incentives – Your business location can determine whether you qualify for government economic business programs, such as state-specific small business loans and other financial incentives.

Is the Area Business Friendly?

Understanding laws and regulations imposed on businesses in a particular location is essential. As you look to grow your business, it can be advantageous to work with a small business specialist or counselor. Check what programs and support your state government and local community offer to small businesses. Many states offer online tools to help small business owners start up and succeed. Local community resources such as SBA Offices, Small Business Development Centers, Women's Business Centers, and other government-funded programs specifically support small businesses.

Tips for Choosing Your Business Location

Choosing a business location is perhaps the most important decision a small business owner or startup will make, so it requires precise planning and research. It involves looking at demographics, assessing your supply chain, scouting the competition, staying on budget, understanding local laws and taxes, and much more.

Here are some tips to help you choose the right business location.

Local Labor Market – Does the area have potential employees? What will their commute be like?

Plan for Future Growth – If you anticipate further growth, look for a building that has extra space should you need it.

Proximity to Suppliers – They need to be able to find you easily as well.

Parking, Kitchens, Dogs, Bikes

Parking also is another important issue that must be addressed in lease negotiations. Often, the standard of three parking spaces for each one thousand square feet leased, known as the 3/1,000 Rule, is not adequate and was undoubtedly established when the building was constructed. Landlords can later go back to the city and request a modification, but this often is difficult to achieve. There are other options such as re-striping the parking lot to include more spaces, providing a valet service to jockey cars into other space around the building, or converting reserved parking spaces—especially those that are vacant the majority of the time—into unreserved ones to accommodate daily employee and visitor demand.

Kitchen no longer only satisfy the need for food in creative office space, they have replaced conference rooms as significant topics of negotiation. The “look” and “brand” that the organization wishes to display to the world is now imprinted in the kitchen area. Often the kitchen will be the central point within the premises, no longer regulated to an interior windowless space, but the premiere lounge location. Kitchens are gathering areas to work, create, and collaborate.

Under the Rules and Regulations section of a lease, a tenant will normally see the prohibition of dogs, but the creative office user is 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 a week one dog can enter the office, and how much it would cost. There usually is a prohibi- tion on bicycles – the transportation of choice for the creative office user.

Institutional ownership of buildings is more challenged to achieve a comfort level of permitting dogs versus bicycles, where the landlord provides racks and bikers the locks. But we’re seeing new buildings providing restrooms with lockers and showers.

Window line also is critical because users want to be as close as possible to the outside environment and natural light. Users also want easy access to parking and amenities; restaurants within walking distance are a must.

Multi-story buildings from the 1970s are very 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 being incorporated into these projects, but they come at significantly higher rental rates.
Finding and Inspecting Your Space

By TIM RUSSELL

Finding the right property in residential real estate is a little easier than in commercial real estate. For one thing, many commercial properties are not listed in the multiple listing service. This makes it difficult to actually see everything out there without talking with a lot of realtors. It makes sense for most to enlist the services of a buyer's agent to help you find 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 not listed in the multiple listing service. Finding the right property in residential real estate is a little easier than in commercial real estate. For one thing, many commercial properties are not listed in the multiple listing service. This makes it difficult to actually see everything out there without talking with a lot of realtors. It makes sense for most to enlist the services of a buyer’s agent to help you find 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 not listed in the multiple listing service.

Classes of Office Space

Office space is divided into three classes — Class A, Class B, and Class C. The classes are just what they 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 may also run across what is now being referred to as Class E Office Space in some cities. These are old buildings class B buildings that are being considerably renovated to become spaces with a totally different look. They usually have very high ceilings, 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 the "look" you need before starting your search.

See as many spaces as you can, and pull out the list you created earlier in 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 sorting system to help you compare each property equally. Regardless, of the system you use, take notes about the pluses and minuses of each site, and take photos to help 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 structure 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

So 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 security doors
  • security gates that fold out of the way during office hours
  • alarm systems that can be monitored by a security firm or the local police department
  • video cameras to watch entrances and exits
  • bullet-proof glass
  • fenced parking
  • external lighting all around the building
  • security guards

If you’re buying the property you need to dig even deeper. Sometimes literally! For instance, you may need to do a Phase 1, 2, or 3 site assessment to make sure there is no environmental contamination that you will be dealing with. Sometimes the lending institute you are getting your loan from will require it.

So what do these assessments entail? A Phase 1 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 2 assessment is needed. Phase 2 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 1 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.

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Business Expansion and Commercial Real Estate

By LUKE ALBARN

Growing a company can be exciting, but it can also be pretty trying. Even handling the infrastructure can bring headaches. If you find yourself saying, “We’ll just squeeze Bob in here,” when your new hires are about to start, perhaps it’s time to consider a move to roomier headquarters.

“We’re eyeing,” when your new hires are about to start, perhaps it’s time to consider a move to roomier headquarters.

A commercial real estate broker will help you find office space, but before you even start talking to one, you should calculate roughly how much space you’ll need. Private offices range between 30-80 square feet, and conference rooms 200-375 square feet. You’ll likely also want to consider other ancillary spaces like storage areas, closets, a faxing/mailing room, or a kitchen.

Then, spend some time thinking about where you’d like to move, as well as what that space should look like. Is it important that you be near public transportation or your customers? Or perhaps an alarm system is a must-have. Knowing what you’re looking for beforehand can help you get a sense for costs, so that you can adjust your budget or your criteria as necessary.

Real estate costs — measured in dollars per square foot, vary greatly. The Building Owners and Managers Association (BOMA) classifies buildings according to their location, appearance, and cost. Class A space, for example, is typically a modern, attractive, secure building in a desirable location. But Class A space in a metropolitan area is far more expensive than Class A space in a less-populated region.

Once you know what kind of space you want and how much you can pay, it’s time to find a broker. Brokers are plentiful, and each tends to specialize in a particular type of space (manufacturing vs. office, for example) and geographical area. Particularly in a hot market, it’s advantageous to find a broker who is intimately familiar with the area you are eyeing, because they often get the inside scoop on space that’s about to become available; you can at least have a chance of getting to it before it’s widely marketed.

Brokers also can provide insight on the quality of different landlords. However, there are brokers who work for the building owner, not you. Some brokers work on commission, which is paid by the landlord and usually ranges between 3.7 percent of the cost of the lease. This practice can lead to situations where your broker is not working in your best interest.

With that in mind, make sure you get a disclosure statement upfront, which details whether the broker is representing the landlord or the tenant or both. The Commercial Investment Real Estate Institute (CIREI) mandates that all members adhere to their Code of Ethics and Standards of Practice. It’s best to look for brokers who are affiliated with the Society of Industrial and Office Realtors (SIOR) and are Certified Commercial Investment Real Estate Owners and Managers Association (CCIM). These designations will ensure that you’re dealing with an educated and recognized professional.

Once you have found your broker and a site you like, you are ready to start the hard part — negotiating. But tips on getting the best deal will have to wait for a future column.

Quick tips:
Think long-term. Consider your long-term growth plans when deciding on a new space. You don’t want to find yourself needing to move when you’ve got a year or so left in your lease.

Interview brokers. Some things to consider: SIOR and CCIM designation and whether the broker is representing the tenant or landlord.

Consider a sub-lease. If your company is growing quickly, you won’t want to lock into a long lease. The rub is that landlords prefer long-lease terms; one way to get around that is to try subletting space from another business.

Luke Albarn is a freelance writer based in Tarzana.