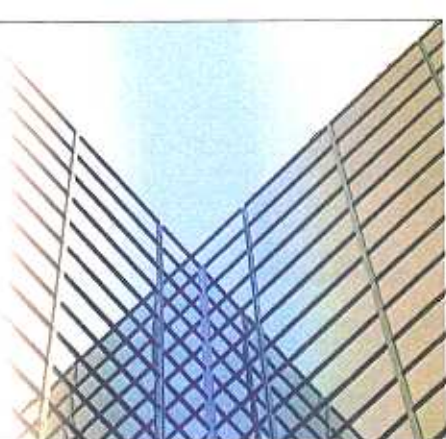


The A-B-C's Of Commercial Property

Know the facts to land the best deal

By JUDIE E. LOOMIS



In the world of commercial real estate, as it relates to office buildings, there are some general rules as to how they are classified. Office space is grouped into three classes, A, B and C. Each classification represents buildings with particular characteristics including amenities, location, rent, efficiencies, accessibility and market perception. Obviously, Class A office space is the most expensive because it offers higher quality to the tenants, and is generally considered prime space. However, each individual market has a different set of standards for A, B, and C classifications. What might be considered Class A office space in Fort Wayne, may be classified as Class B space in Chicago, Atlanta or Cincinnati. For example, in a larger metropolitan city a Class A office building would offer such amenities as food service (restaurant), a palatial lobby and elevator area, full-service cleaning and trash removal, broadband or satellite service, and the location would be appropriate to its clientele. In much smaller cities like Fort Wayne, Class A office space could include some of those amenities but not all, simply because the demand isn't there.

"In Fort Wayne, Class A office space tends to be newer steel framed buildings with higher ceilings and lots of windows, and they offer a very class look, with exteriors that integrate stone and brick, and foyers as opposed to just separate outside entrances," says David Nugent, a partner in BND Commercial Realty, Inc. "How important is food service in office buildings considered Class A, zero! But, parking is a big deal in the downtown area, and a potentially charged subject. Some say there is no problem with parking in and around the city while others say you have to be kidding me! I am one of those people who believe there should be more parking, and I can cite specific examples."

Some office space considered Class A in the Fort Wayne area include; the Standard Federal building, National City Bank building, the Miller Valentine buildings scattered around the Dupont area, the Waterstone building on Coldwater Road, the Wells Fargo building, and the Inverness office complex southwest of the city.

However, while Fort Wayne may not have a plethora of Class A buildings, there are numerous Class B buildings scattered throughout the city and county, including the Metro Building, The Commerce Building, and clusters of office park buildings. In fact, in a market like Fort Wayne, Class B office space is considered the majority.

"The age of the building has a lot to do with its classification," says Barry Sturges, CB Richard Ellis/Sturges. "A Class A building has larger floor sizes, energy efficient HVAC and lighting, convenient parking, and generally larger lobbies or common areas, which is going to cost significantly

more than a Class B building."

Typically, rent on Class A office space in Fort Wayne will run between \$17 and \$18 per square foot, compared to the Chicago market which runs \$40 on up. Class B office space in Fort Wayne is \$10 to \$12 per square foot, while Class C averages at \$6 to \$8 per square foot.

Class C office space follows the same general criteria in its classification; age, amenities, luxuries, parking and location. Often, Class C office buildings are usually quite old and offer dated amenities, if any at all.

"A good example of Class C space is the old Kmart Distribution Center and the ITT building on Pontiac Street," adds Nugent. "There are C classified buildings all over this town; they are older industrial buildings with a gigantic amount of office space in front (that has long since been vacant), and production areas in the back. The Kmart Distribution Center which is located across from the Fort Wayne International Airport has 32,000 square feet of space that is quite antiquated. That space could very possibly list at \$3 per square foot. The antiquated ITT building has 18,000 square feet of office space in the front of it, and a production area in the back. Because of its age and the lack of any modern conveniences, you could lease 6,000 square feet of that space for as little as \$1.50 per square foot."

Not specifically classified in the A, B, or C ranking is industrial space, not unlike the ITT building or the Kmart Distribution Center, but much newer and with many more amenities.

"It is typically considered warehousing with office," Sturges says. "Potential lessees of this type of space are looking for 28- to 30-foot ceilings in the warehousing areas. There is an abundance of vacant and available warehousing/office space throughout Fort Wayne and Northeast Indiana. The primary reason is that many industries have vacated the area leaving large available space at reasonable rates. However, overall, the two areas of the market that have remained strong are industrial and retail primarily because interest rates have remained low."

If you are in the market for leasing office space, there are a few key things you should know about locating property and negotiating a deal. Not every space is created equally. And, unless you know the idiosyncrasies involved in getting the best deal, don't sign a lease. For example, there are various types of office leasing in this market including full service, and Triple Net. Each has significant differences that could greatly impact your bottom line.

"Full Service leasing means that the tenant pays one amount of rent and everything is covered including Common Area Maintenance (CAM), which refers to items that are common to others in

the building (i.e. lawn and snow maintenance, parking lot lighting, etc.) and heat and air in common areas only such as entrances and hallways," Nugent says.

Consider as well that there are office complexes that fall someplace in the middle, between industrial and professional office buildings. Airport North Office Park is a good example of what Nugent refers to as "Flex" space.

"It is an industrial zoned area, and there are quite a few of them in and around the area," Nugent adds. "Flex space is generally considered 'Triple Net' leasing space which means in addition to your base rent you also pay your proportionate share of three things: common area maintenance, fire and flood insurance and property taxes in addition to your utilities, which are metered separately. You have to make sure that throughout the process of locating appropriate office space for your business to compare apples to apples. If a Triple Net space is leasing for \$8 per square foot and a full-service space is leasing for \$12 per square foot, find out what the \$8 space includes. You have to ask what the pass-through charges are running."

Your best bet in getting an equitable deal is to contact two professionals, a knowledgeable broker and an attorney. On the average it takes three to six months to complete a deal, and that includes a market search, developing a Letter of Intent (LOI) and negotiations that alone can take several weeks. Time is your best advantage.

"The best deals happen for people who have time on their side," says Nugent. "My recommendation is to begin the process six months in advance. If you are against the wall and under pressure to leave your existing office space, or have any time constraints, you are at a disadvantage during the negotiating process."

What Building Qualities are Most Important:

- Proximity to customer base
- Parking
- Cost and quality/value
- Location of workforce
- Connectability to major thoroughfares
- Proximity of other types of related businesses