

Real Estate Strategies

The Stevens Group | Boston, Massachusetts

The Recession Is Coming: Take Advantage

The looming threat of a downturn in the US economy may create negotiating opportunities for business tenants.

One can blame the Federal Reserve for its caution, or blame the people who created financial instruments out of dubious sub-prime mortgages. The results are the stock market swooning, some of the world's leading banks near collapse and two million home foreclosures. This approaches depths not seen since the Great Depression.

The message from business to the Federal Government must be, "Let's make this downturn short because it sure isn't sweet."

Three factors, among others, offer hope for reaching a soft landing: the infusion of foreign capital to cushion losses at financial institutions; the Fed's measures to lower interest rates and maintain liquidity in the face of a credit crunch; and the Federal Government's action to create an immediate, one-time \$1.5-billion tax rebate-economic stimulant for individuals and businesses.

While residential real estate has taken the primary hit, the impact on commercial real estate will be forthcoming. Market dynamics will change as more companies show signs of weakening and begin layoffs. In 4Q 2007, commercial markets nationwide experienced the first vacancy rate increase in five years.

As the market softens, landlords have greater incentive to offer more aggressive concessions to secure quality tenants. To find out how to leverage this opportunity and negotiate a better bottom line for your company, call your local ITRA tenant representative today.



Debra Stevens

Ignoring the Elephant in the Room?

Brokers Who Serve Two Masters

BY CRAIG A. IRVING, PRINCIPAL
ITRA/IRVING HUGHES, INC.



DUAL REPRESENTATION BROKERAGE IS THE REAL ESTATE BROKERAGE INDUSTRY'S "ELEPHANT IN THE ROOM."

Dual agency occurs when one real estate company represents both the tenant and the landlord in a lease transaction. Sometimes it is one individual on both sides; other times it is two individuals within the same firm.

No one serves two masters.

Every year, tens of thousands of businesses are misled by brokers whose true loyalty is to the landlord. This costly mistake translates to higher rent, more overhead and less profits. Yet, like an elephant in the room, many business tenants negotiating a lease ignore the elephant and allow a major component of their future overhead costs (rent) to be adversely impacted by people whose loyalties lie across the negotiating table—the dual rep broker and his true client, the landlord.

In Southern California, a professional services firm that occupied 15,000 square feet of office space was approached by its building's listing broker and his landlord. This dual-loyalty broker and his landlord client said all the right things to the ten-

ant, focusing on the great relationship they had shared over the past ten years. They told the firm not to hire an outside broker to represent the tenant's interests, and offered the tenant "a below market deal." The dual-agency broker promised the tenant that it would save the cost of a commission, and that savings would be reflected in reduced rent.

The tenant was contacted by our ITRA office, and happened to ask if we could review the landlord's "wonderful terms," based on our recent experience in the building and in the surrounding area.

What happened next shocked the tenant: we showed them that the deal was below the belt, not below the market. The proposed rent was actually \$4 per foot higher per year than recent new deals we had finalized in the same building. In addition, the landlord wasn't going to change the tenant's base year for operating expenses. In the proposed deal, they would pay an extra \$.40 per

Continued on page 5

Soaring Construction Costs Demand Smarter Project Management

BY MYLINDA VICK
ITRA/CHERRY & ASSOCIATES

HERE'S THE SITUATION: YOU ARE A COMMERCIAL USER OF OFFICE SPACE, EITHER A TENANT OR BUYER, AND YOU ARE NEGOTIATING A NEW LEASE, OR RENEWING YOUR LEASE, OR PURCHASING A BUILDING FROM A LANDLORD.

With construction material prices rising on average 25% - 30% during the past year in North America, construction budgets are tight and estimates have to be right. Many landlords have responded to these higher costs by reducing what they give for tenant improvement allowances and build outs for tenants and buyers. In short, the landlords have changed the rules, and you better protect yourself by doing your homework.

Tenants and buyers typically overlook key components of construction pricing comparison in reviewing their options for a lease or property ownership. While it's important to compare construction bids on an apples-to-apples basis, some apples are indeed quite different. In other words, do not look at the bid price alone, look at what's included.

Here are some tips to save time, money and aggravation:

- If you are required to use the landlord's contractor, request that the contractor receive bids from three (3) subcontractors.
- When hiring a general contractor yourself, consider making the general contractor your partner on the project and bid out the work to three subs.
- Know what the definition of "Base Building" really is in your lease or contract, and what is being provided at the landlord's expense. In buying a property, be aware that some landlords are broadening their definition of a base building, in order to scale back their costs. For example, where the landlord once provided parabolic lighting stacked on the floor, the lights are now priced into the user's build-out budget.
- Test fits should be carefully scrutinized. If the landlord's architect cre-

ates an 8x11 area replica, make sure to determine the real costs of per square foot build out costs.

- Make sure that all contractor estimates are based on actual per square foot costs that are based on the building's standards, or upgrades if required by tenant. Anything less will lead to big cost overruns.



While it's important to compare construction bids on an apples-to-apples basis, some apples are indeed quite different.

- To make the comparison of the preliminary bids easier, have all the contractors use the same specific form to establish 16-line item breakdown.
- If you don't have prior knowledge of the construction companies doing your work, make sure they are bonded to handle the project and check their

prior experience. Make sure the landlord will approve these companies to work in the building. Many times, this indicates whether the construction firm is credible.

If using preliminary plans for pricing, the price will only be as good as the details provided to the construction company. If the plans are short on details you or your architect should do a systematic review of the plans and identify budgets to be used for carpet, vinyl, wood. Do the plans call for painting or wallcovering?

After receiving the bids, remember that the cheaper price is not always the best price. Do a detailed review of the bids. This may uncover missing items or a better pricing alternative than the original plan.

If there's a significant pricing difference in a bid category, that's a red flag. For example, if one contractor prices electrical at \$50,000 and another bids \$30,000, there are probably big differences in how each interpreted the plans. By going through each line item bid with the contractors, you can often create cost savings.

In many instances having the preliminary pricing budgeted can also provide a checklist when final pricing is completed. If nothing was changed on the plans, there should be very little or no change on the final pricing. However, contractors provide pricing on multiple projects and can get different prices from their subcontractors due to many reasons. By developing preliminary pricing documents, you not only qualify the best contractor, but you also confirm that the final construction bid is within budget, and you avoid huge surprises at the end of the construction project.

By managing the process closely, you will create cost savings and value by avoiding cost overruns and construction problems.

ITRA Success Story:

ITRA/Pollina's A to Z Services Help X-Rite Provide Color Solutions

X-Rite approached Chicago-based ITRA/Pollina Corporate Real Estate looking for assistance with identifying and securing a long-term solution for its global headquarters, research and development, and manufacturing capabilities. X-Rite is a leading provider

of color measurement solutions comprised of hardware, software and services for the verification and communication of color data. With offices throughout Europe, Asia and the Americas, X-Rite serves markets in over 88 countries, covering a

broad range of industries, including photo, digital imaging, graphic arts, industrial and retail color matching, medical and dental.

ITRA/Pollina Corporate provided X-Rite with strategic planning, site selection, state and local incentive negotiations. ITRA/Pollina Corporate helped X-Rite through the acquisition of its new facilities and disposition of their former campus. X-Rite plans to hire over 300 new associates and spend \$44.5 million over five years on the new facility, including building, machinery, and equipment.

"The Pollina Corporate team worked with us from A to Z, maintaining the consistency necessary to pull off such a complicated series of transactions. As a public company, we are committed to maximizing shareholder value," says Jeff Smolinski, vice president of X-Rite. "The incentive package negotiated by Pollina Corporate helped to 'green light' a project that will be critical to the success of our long-term growth strategy. Their technical expertise demonstrated during the acquisition and disposition stages enabled us to manage the risks associated with such a big move. With Pollina leading the project as a third-party, X-Rite was able to avoid any potential disruption to our business and, most importantly, our employees."



The
ITRA®
Advantage

Global Services

Office, Industrial and Retail Facilities

- Regional, National, International Headquarters
- Sales Offices
- Research & Development
- Information Centers
- Telemarketing
- Backroom Operations
- Warehouse / Distribution
- Manufacturing

Real Estate Market Analysis

- Acquisitions
- Dispositions
- Lease Renewals
- Manufacturing

Negotiations

- Proposals
- Leases
- Dispositions
- Acquisition Contracts
- State & Local Incentives
- Sale/ Leasebacks
- Workletters
- Operating Expenses & Taxes
- 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

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

Construction Consulting

- Project Management
- Contractor/Subcontractor Selection



North America Office Market Survey

Fourth Quarter 2007

	CITY	TOTAL SQUARE FEET	VACANCY	AVAILABLE SPACE	AVERAGE RENT
1	Atlanta	124.3M	18.7%	25.0M	\$21.11
2	Austin	38.1M	13.8%	5.2M	\$25.37
3	Baltimore	87M	13.3%	11.6	\$22.38
4	Boston	71.5M	7.6%	5.4M	\$37.82
5	Charlotte	60M	10.0%	6M	\$19.13
6	Chicago	293.6M	17.6%	51.6M	\$26.00
7	Colorado Springs	25.9M	11.5%	2.9M	\$10.95
8	Dallas	185.1M	20.2%	51.5	\$19.08
9	Denver/Boulder	137.3M	18.1%	24.9M	\$22.00
10	Fairfield County, CT	Suburban 43.4M/Metro 16.9M	Suburban 12%/Metro 13%	Suburban 6.9M/Metro 3.3M	Suburban \$32.32/Metro \$37.06
11	Ft. Lauderdale	46.4M	12.0%	7.4M	\$35.70
12	Houston	194.7M	11.5%	22.3M	\$23.39
13	Las Vegas	42M	14.0%	5.9M	\$23.87
14	Long Island	57M	11.0%	6.2M	\$28.24
15	Los Angeles	326.8M	9.0%	44.9M	\$32.16
16	Manhattan	576.6M	4.0%	42.1	\$57.83
17	Miami	39M	11.0%	7.4M	\$32.59
18	Nashville	28.7M	8.0%	2.3M	\$17.33
19	New Jersey	319.7M	12.1%	38.6M	\$25.64
20	Norfolk	31.5M	9.0%	3.3M	\$18.33
21	Orange County, CA	121M	13.0%	22.0M	\$32.76
22	Orlando	57.1M	11.0%	6.3M	\$24.66
23	Palm Beach	36.9M	15.0%	7.7M	\$29.41
24	Philadelphia	91.1M	15.0%	13.2M	\$25.86
25	Phoenix	116.3M	15.0%	16.9M	\$25.74
26	Pittsburgh	88.9M	13.0%	11.8	\$18.91
27	Portland	58.5M	9.9%	5.2M	\$20.71
28	Salt Lake City	20.1M	7.2%	1.4M	\$18.96
29	San Diego	77.3M	14.0%	16.4M	\$34.20
30	San Francisco	89.2M	10.2%	9.0M	\$34.81
31	Seattle	127.3M	9.2%	12M	\$29.71
32	Silicon Valley	85M	11.2%	9.4M	\$27.14
33	Spokane	9.8M	13.0%	1.3M	\$16.34
34	St. Louis	80M	11.3%	9M	\$19.16
35	Tampa	40.2M	13.0%	6.9M	\$22.29
36	Toronto	161.6M	7.5%	12.1M	\$34.86
37	Tucson	18.9M	10.0%	1.8M	\$20.17
38	Washington, D.C. Metro	411M	10.0%	41.4M	D.C.: \$48.45/Metro: \$34.00
39	Westchester, NY	Suburban 29.23M/Metro 6.1M	Suburban 10%/Metro 6%	Suburban 5.2M/Metro .38M	Suburban \$28.96/Metro \$33.32

London Office Market Survey

Fourth Quarter 2007

	DISTRICTS	TAKE UP	GRADE A VACANCY	PRIME YIELD	PRIME RENT
40	London (WE) CBD	1.00 M sq ft	2.6%	4.50%	115.00 GBP
41	City/Docklands	1.10/0.84 M sq ft	2.6%/3.3%	5.50%	66.00/50.00 GBP

Definitions for London "Take Up"—Space absorbed in the previous quarter | "Supply"—Available Space | "GBP"—British Pounds

Asia/Pacific Rim Office Market Survey

Third Quarter 2007

	CITY/COUNTRY	TOTAL SQUARE FEET	VACANCY IN %	AVAILABLE SPACE	AVERAGE RENT
42	Bangalore, India	5,550,000	0.4%	222,000	\$21.12
43	Chennai, India	2,768,758	0.7%	193,814	\$17.16
44	Hyderabad, India	2,000,000	2.2%	44,000	\$15.48
45	Mumbai, India	1,695,800	1.5%	25,500	\$83.16
46	Beijing, China	1,397,085	13.4%	187,209	\$38.96
47	Hong Kong, China	1,984,254	3.1%	61,512	\$128.50
48	Shanghai, China – Pudong	1,202,842	1.5%	18,050	\$41.64
49	Taipei, Taiwan	1,604,737	7.4%	118,750	\$25.44
50	Tokyo, Japan	11,360,138	0.8%	90,881	\$148.56
51	Seoul, South Korea	7,229,440	0.5%	36,150	\$57.12
52	Jakarta, Indonesia, Class A&B	33,875,568	17.8%	6,029,851	\$14.28
53	Brisbane, Australia – Fringe	8,826,407	1.6%	141,222	\$35.5054
54	Sydney, Australia	8,048,402	3.8%	305,840	\$58.64

Central/Latin American Office Market Survey

Third Quarter 2007

	CITY/COUNTRY	TOTAL SQUARE FEET	VACANCY IN %	AVAILABLE SPACE	AVERAGE RENT
55	Bogota, Colombia – Overall	16,845,000	1.3%	219,000	\$27.36
56	Buenos Aires, Argentina – Class A/AB	8,000,000	1.5%	120,000	\$38.40
57	Caracas, Venezuela	7,000,000	5.0%	350,000	\$44.52
58	Lima, Peru	3,842,716	8.0%	307,417	\$14.76
59	Mexico City, Mexico – Reforma	9,550,000	7.4%	708,028	\$34.80
60	Monterrey, Mexico	5,152,500	5.7%	293,692	\$25.20
61	Panama, Panama	3,229,173	14.0%	452,084	\$25.08
62	Sao Paulo, Brazil	23,000,000	9.0%	2,070,000	\$45.96
63	San Juan, Puerto Rico	7,200,000	7.0%	504,000	\$27.00
64	San Jose, Costa Rica	4,036,467	5.0%	201,823	\$22.29
65	Santiago, Chile	14,016,400	2.2%	308,361	\$25.62

Disclaimer: This survey contains information from sources deemed to be reliable and accurate. However, we make no representation, warranty, or guaranty of its accuracy.

square foot per month in expenses, and that increase would have continued for another ten years had we not reviewed the deal. The tenant was offended by the deception attempted by the landlord and the landlord's broker. We moved them out of the building to higher quality space in a better building and saved them almost \$2 million dollars.

Although the commercial real estate market has been trying to hold the lid on this dirty little secret for decades—it's called **conflict of interests**—a growing group of tenants is having an epiphany. These savvy tenants are realizing that in the world of big commercial brokerage houses, the house wins, and in this case, the house is always the landlord, because that is where the money is!

The landlord's goals and objectives clearly conflict with the tenant's. Next to payroll, "rent" is the highest expense for most companies. Rent is defined as base rent plus all the additional occupancy costs landlords impose upon tenants during their lease term, including operating expense pass-throughs, real estate taxes, parking charges, amortized tenant improvements, and much more.

Landlords are in the business of leasing and operating office buildings: they are pros at it. They know every trick in the book. And their soldiers are the landlord brokers.

How does a broker who has a listing on a building, and a fiduciary responsibility and contractual obligation to the landlord, fairly and adequately also represent the tenant? The answer is, no matter how much marketing spin they might use to justify it, they can't.

An unsuspecting tenant doesn't stand a chance when standing alone against a dual agency broker and his landlord. Commercial tenants aren't in the real estate business. Their focus and experience lies in whatever it is they do to maximize their own profits and minimize expenses. However, one sure way to minimize expenses is to hire a specialized tenant representation firm and level the playing field when negotiating an expansion, renewal, relocation, contraction or purchase. An exclusive tenant rep firm—like ITRA—only represents space users, never landlords.

Let's look at another example: A ten-

ant was renegotiating his firm's lease directly with the landlord and the landlord's broker. Without a tenant representative in his corner, the tenant was at a disadvantage. ITRA stepped in and reviewed all the correspondence as well as the existing lease. The landlord was threatening to re-measure the space per BOMA 1996 standards. This would have increased the tenant's core factor by more than 7%. However, we pointed out that the tenant had a favorable extension option which they hadn't exercised yet, and the lease was specific: the landlord had no right to re-measure the space. We helped the tenant go to arbitration, and saved them \$1,000,000 in rent—money that would not have been saved had they used a dual representation broker.

Dual representation brokers serve

landlords by securing additional listings or management contracts, from the landlords, or to market their success to other potential landlords.

When this writer started in this business over 23 years ago, everyone worked for landlords. We made our money by filling landlords' buildings with new tenants or retaining tenants on lease renewals. It wasn't until the mid 1980s that exclusive tenant representation started to emerge as a realistic business model accepted by corporate users.

A tenant broker wants to do a good job, develop a long-term relationship with the client based on trust, and win referrals to other tenants in their market in the process.

The choice is yours! Let's send the elephant packing.

ITRA Adds Three More North American Markets

THE INTERNATIONAL TENANT REPRESENTATIVE ALLIANCE (ITRA) ANNOUNCED THE ADDITION OF THREE OFFICES WHICH MARK A MAJOR EXPANSION IN THE US MARKET. THE NEW OFFICES ARE IN BOSTON, ORANGE COUNTY, CA AND COLORADO SPRINGS.

ITRA/The Stevens Group, headed by Debra Lee Stevens, is a major Boston-based firm with 28 years advising the Boston area's corporate clients as well as the technology and life science sector. This new affiliation extends ITRA's reach from Boston and the surrounding suburbs into Southern New Hampshire. ITRA/The Stevens Group is located at Ten Post Office Square, Boston, MA, Tel: +1.617.886.9300; e-mail: dstevens@itraglobal.com

The addition of ITRA/David J. Zeve Associates will give ITRA a presence in Orange County, CA. This marks the return of David Zeve to ITRA, an early pioneer in the field of tenant representation going back 20 years, who has previous experience leading other ITRA offices. Mr. Zeve may be contacted at 1821 Port Barmouth Place, Newport Beach, CA 92660, Tel: +1.949.759.6661, or e-mail: dzeve@itraglobal.com

ITRA/Tenant Real Estate Advisors,

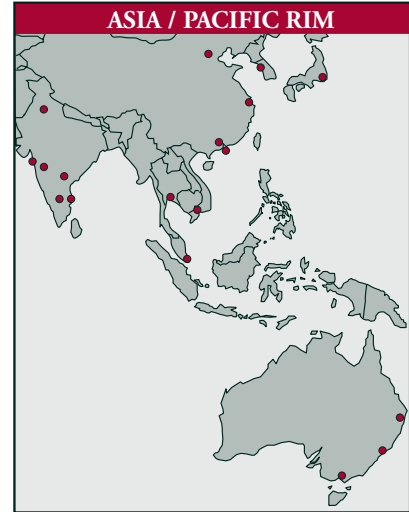


Colorado Springs, CO, marks ITRA's first entry into southern Colorado. Gary L. Christensen SIOR®, CCIM® and CPM®, with 26 years experience, is the principal of ITRA/Tenant Real Estate Advisors. Mr. Christensen has worked with such clients as Met Life, Safeway, Polo, Blockbuster, Payless and Albertsons. He has served as the Southern Colorado Chapter President of the Institute of Real Estate Management (IREM). ITRA/Tenant Real Advisors may be reached at, Tel: +1 719.634.9000, or contact Mr. Christensen at: christenseng@itraglobal.com.



ITRA®

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Representative Alliance*



● ITRA Locations

2/2008

GLOBAL OFFICES

NORTH AMERICA

Toronto	Dallas	New York City	Salt Lake City
Asheville	Denver	Norfolk	San Diego
Atlanta	Fairfield County	Northern New Jersey	San Francisco
Austin	Ft. Lauderdale	Northern Virginia	Silicon Valley
Boca Raton	Long Island	Orange County, CA	Spokane
Boston	Los Angeles	Orlando	Suburban Maryland
Boulder	Miami	Palm Beach	Tampa
Chicago	Naples	Philadelphia	Tucson
Colorado Springs	Nashville	Phoenix	Washington D.C.
		Pittsburgh	Westchester County
		Portland	

LATIN AMERICA

Buenos Aires	San Juan
Caracas	Santiago
Curitiba	Santo Domingo
Lima	Sao Paulo
Mexico City	
Monterrey	
Ponce	

EUROPE

London

ASIA / PACIFIC RIM

Bangalore	Melbourne
Bangkok	Mumbai
Beijing	Pune
Brisbane	Seoul
Chennai	Shanghai
Delhi	Shenzhen
Ho Chi Minh City	Singapore
Hong Kong	Sydney
Hyderabad	Tokyo

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Issue XXIII

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*ITRA provides corporate real estate
services for tenants and buyers
throughout the world.*