

Real Estate Strategies

The Stevens Group | Boston, Massachusetts

Green Buildings and Build-outs Can Happen With Tenant Support

Improving energy efficiency, sustainability and creating healthier buildings are more than just agreeable apple pie goals. They are moral imperatives that are achievable. And it should be no surprise: going green actually contributes to bottom-line profits and worker productivity.



Mark Stevens

More than a quarter of the US trade deficit is from petroleum imports. Real estate is the largest single energy user in the nation. Together, these facts create a challenge for innovation and an

opportunity for businesses to cut carbon consumption without compromising profits.

But also consider the perks of creating a healthier building environment while we also trim our carbon footprint:

- Reducing or eliminating VOCs (volatile organic compounds) which cause Building Sickness Syndrome, means a healthier workforce and less sick days.
- Workers in healthier, more “sustainable” new buildings like those certified by the LEED program have benefited from features such as natural, ambient light that brightens the mood while reducing energy consumption.
- Building green buildings helps to keep jobs and money in the US by lowering overhead and cutting energy costs.

The only thing missing from this bottom line green revolution is the resolve to get it done. When it comes time to build out your tenant improvements, you can introduce positive change by insisting on LEED-certified construction.

Give us a call at (617)886-9300 to learn more about going green.

It's Time To Revisit Lease Audits:

What You Don't Know—About Your Lease—Can Hurt You!

BY PAUL STEVENS



BUSINESSES LARGE AND SMALL ARE IN A SQUEEZE PLAY. IT'S NO SECRET WHY—INFLATION AND ECONOMIC UNCERTAINTY COMBINED WITH THE INABILITY TO FULLY PASS ALONG INCREASED COSTS TO CUSTOMERS.

With bottom lines under such universal attack, a growing number of corporations are revisiting lease audits as a tool to cut costs, since rent is the second largest operating expense for a business after employee compensation.

Landlords, by contrast, seem to have little problem passing along their rising costs to tenants. Sometimes, however, they may abuse the privilege.

Here are some examples reported in *The New York Times* of how successful, professional lease audits helped smaller businesses recoup wasted money:

- A publishing company discovered it was charged \$100,000 for an installation of a new cooling tower, a capital item that can't be expensed to a tenant, and an extra \$28,000 per year in cleaning costs based on an underre-

ported base-year cost. The company received credit against its rent.

- A textile company subletting 12,000 square feet found that the primary tenant was allocating disproportionate share of its own escalations to their company, which recouped \$175,000.

Not all situations have an immediate, satisfactory resolution. An outside audit revealed that Cincinnati-based bank, Fifth Third Bancorp, was overcharged more than \$800,000 in operating and maintenance expenses by Danis Properties Inc. The landlord disputed this finding, and filed a lawsuit in May 2007.

The bank's experience is a reminder that commercial tenants must pay greater attention to the impact of lease clauses on their rent bills, particularly

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Reap Unexpected Benefits!

Going Green Is Worth The Effort

BY JOHN BANTING
LEED™ ACCREDITED PROFESSIONAL

IN BASEBALL, IT'S THE 10TH PLAYER ON THE FIELD. IN BASKETBALL, IT'S THE SIXTH PLAYER ON THE COURT, WHILE IN FOOTBALL, IT'S THE 12TH MAN ON THE GRIDIRON.

What are they talking about? The crowd! It's all about the atmospherics that affect performance.

The same is true in real estate.

While buildings don't cheer on the home team, they play a major role in the health, morale and productivity of your workforce. And having a good building in your corner, is well, good as green.

How does a positive building environment benefit your business? It's not just cutting operating costs through fuel savings. There's a new generation of green buildings that promote greater worker productivity and improved morale.

Anyone familiar with "building sickness syndrome," understands how a legacy non-green building can drag on productivity and profits. Beyond the obvious feel good and environmental brownie points, a truly "green" building is built with materials that trap or eliminate such toxins in the air as VOCs (volatile organic compounds), provides more ambient light and has more ergonomic design features.

Poor IAQ (indoor air quality) is often caused by mold, irritants, and VOCs emitted from office furnishings, paint, carpeting and other materials. A 2005 study carried out by two University of Miami researchers compared the amounts of VOCs released from non-green materials and their green counterparts over a 5-day period.

Here are some findings:

- Carcinogenic VOCs from Vinyl Flooring released 2.31 mg/meters cubed into an indoor building space; while ceramic tiles had no release at all.
- Oil-Based Paint with Wood Stain released 6,940 mg/meters cubed; that's 368 times more cancer-causing VOCs than water-based paint, which released 18.9 mg/meters cubed.

These emissions can in turn induce "sick building syndrome" (SBS) among the occupants. A 2002 study from the Indoor Environment Department at the Lawrence Berkeley National Lab found

that at least 23% of US office workers suffer from 2 or more SBS symptoms in workplaces each year. These adverse health effects can lead to employee absenteeism, low productivity, job dissatisfaction, and high turnover rates.

Companies should not only pay attention to abundant daylight, outdoor views, individual climate and moisture control, but also strive to provide clean air—which means using green materials, as described above. This last concept is known as IEQ—indoor environmental quality. IEQ primarily concerns the quality of indoor air. More than a concept for the environmentally conscious, IEQ is inspiring a movement as more and more companies become interested in the financial benefits of choosing environmental-friendly spaces for their workplace.

Simply put, if your employees breathe easier, and the building environment is healthier, it means less down time (sick days) and the place where people spend more than a third of their waking hours—the office—will be more productive. Companies as diverse as Toyota, Adobe Systems and Lake Champlain Chocolates are finding that IEQ and green building practices that lower operational and maintenance costs due to energy and water efficiency result in another green, as in saving money.

The US Green Building Council program LEED (Leadership in Energy and Environmental Design) promotes sustainable practices in five key areas. This includes systematic and effective ways to improve IEQ through a defined set of standards for sustainable design, construction, and operation.

As a nationally accepted third-party certification program, LEED offers four levels of certification: basic, silver, gold, or platinum. A building's level of certification depends on the number of points LEED awards for improved developments for indoor environmental quality, sustainable site development, water savings, energy



efficiency, and materials selection.

At the gold-certified Toyota Motor Sales Headquarters, employee absenteeism is 14% lower than it was before the site's renovation and expansion. Because Headquarters used most of its budget to maximize interior daylight, 90% of its employees now enjoy natural light and outdoor views.

Cambridge, MA-based Genzyme Corporation received platinum LEED certification for their headquarters in 2004. Their 12-story atrium helps provide daylight and facilitate fresh air flow throughout the building. Genzyme reported that absenteeism is 5% lower at their headquarters site than their other Massachusetts facilities combined. Its post-occupancy survey, circulated among approximately 900 employees in 2005 found that:

- 58% of its employees felt that individual thermostats contributed to improved quality of the work environment.
- 72% felt that lighting features boosted alertness and productivity.
- 88% felt that access to outdoor views and interior gardens contributed to improved sense of well-being.

The concept of the sustainable buildings will not fade as a trend of the "green" movement. Rather, it promises to gain in popularity as more and more companies understand that improved IEQ can increase output from the bottom line.

John Banting is an executive with Hedrick Brothers Construction of Palm Beach, FL.

ITRA Success Story:

ITRA "Diligence and Creative Approach" Helps German Retailer's DC Debut

Ear-to-the-ground local market knowledge, global fluency and the negotiating skills of an experienced, exclusive tenant broker combined to make the Washington DC debut of Lumas, a German high-end retailer, a successful part of their US expansion.

When Lumas approached Debra Stracke Anderson, president of ITRA/Sloan Street Advisors, to find an ideal location for their upscale gallery, the

challenge was finding a site

that met the budget, but also was attractive for the retailer's affluent clientele.

While nothing on the market met that objective, Ms. Anderson reached into her extensive knowledge of Georgetown, a highly sought-after market for premium retailers. She found the perfect space, except it was not on the market, was three times too big for Lumas' requirements and well beyond their budgetary parameters.

What others might have dismissed as impossible, Ms. Anderson took as an opportunity. Knowing the building owner's European background, and his awareness of the strong branded identity and prestige of Lumas, she negotiated lease terms that had not been seen in that market for several years, including not just price, but considerable flexibility. She convinced the owner that in breaking up the space for Lumas, the remainder would attract other world class tenants—a strategy that is paying off.

"Debra demonstrated diligence and a very creative and thoughtful approach in contacting just the right developer," says Stefan Koster, business development manager for Lumas. "Without her in-depth knowledge of the market and her invaluable expertise in a complex negotiation, this deal would not have happened."

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
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Lease Management

- Lease Abstracting
- Financial Reports
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Strategic Planning

- Model Development
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- Policies & Procedures Manuals

Location Analysis

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- Taxation
- Market Accessibility

Financial Analysis

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- Equity Participation
- Sale / Leasebacks

Surplus Property Analysis

- Marketability
- Highest & Best Use
- Disposition Strategies

Construction Consulting

- Project Management
- Contractor/Subcontractor Selection



	CITY	TOTAL SQUARE FEET	VACANCY	AVAILABLE SPACE	AVERAGE RENT
1	Atlanta	219.3M	15.0%	33.2M	\$21.48
2	Austin	38.4M	16.5%	6.3M	\$25.94
3	Baltimore	90.2M	13.0%	11.7M	\$22.51
4	Boston	71.1M	7.7%	5.4M	\$39.32
5	Charlotte	61.2M	11.0%	6.6M	\$20.61
6	Chicago	299.0M	16.9%	50.5M	\$26.50
7	Colorado Springs	26.5M	13.4%	3.5M	\$11.17
8	Dallas	192.8M	20.5%	52.4M	\$19.41
9	Denver/Boulder	138M	18.0%	25.6M	\$22.51
10	Fairfield County, CT	47.8M	11.1%	4.5M	\$32.49
11	Ft. Lauderdale/W. Palm Beach	85.5M	14.0%	16.2M	\$28.27
12	Houston	201.8M	12.0%	24.6M	\$24.44
13	Las Vegas	44.5M	17.0%	7.7M	\$24.52
14	Long Island	58M	11.0%	5.1M	\$28.07
15	Los Angeles	411.3M	9.0%	53.4M	\$31.56
16	Manhattan	517.2M	6.0%	46.1M	\$64.80
17	Miami	42.1M	14.0%	6.0M	\$30.72
18	Nashville	29.3M	8.2%	2.4M	\$17.95
19	New Jersey	232M	16.0%	52.2M	\$25.61
20	Norfolk	32.8M	12.0%	3.8M	\$18.75
21	Orange County, CA	122.6M	15.0%	24.4M	\$31.56
22	Orlando	58.3M	13.0%	7.6M	\$22.77
23	Palm Beach	36.9M	15.0%	7.7M	\$29.41
24	Philadelphia	93M	15.0%	14M	\$26.11
25	Phoenix	120.0M	17.0%	16.9M	\$27.21
26	Pittsburgh	91.5M	12.0%	11.1M	\$19.19
27	Portland	57.4M	9.7%	7.8M	\$21.56
28	Richmond	42.4M	10.0%	5.1M	\$17.03
29	Salt Lake City	20.2M	6.6%	1.3M	\$19.38
30	San Diego	78.5M	15.0%	11.6M	\$32.93
31	San Francisco	99.7M	10.0%	9.9M	\$39.24
32	San Juan, PR	14.6M	14.0%	2.1M	\$29.00
33	Seattle	130.7M	9.5%	12.4M	\$19.92
34	Silicon Valley	113.3M	10.3%	11.7M	\$30.29
35	Spokane	9.8M	13.0%	1.3M	\$16.34
36	St. Louis	84.2M	12.0%	9.8M	\$19.12
37	Tampa	41.2M	15.0%	6.1M	\$22.00
38	Toronto	162M	7.5%	13M	\$35.29
39	Tucson	21M	9.4%	1.9M	\$20.26
40	Washington, D.C. Metro	420.1M	11.2%	47M	D.C.:\$47.62/Metro:\$34.51
41	Westchester, NY	35.5M	10.9%	3.7M	\$29.28

London Office Market Survey

	DISTRICTS	TAKE UP	GRADE A VACANCY	PRIME YIELD	PRIME RENT
42	London (WE) CBD	1.06M	3.5%	5.00%	120.00 GBP
43	City/Docklands	0.72/0.03 M sq ft	4.2%/3.5%	5.65%	58.50/45.00 GBP

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

Asia/Pacific Rim Office Market Survey

	CITY/COUNTRY	TOTAL SQUARE FEET	VACANCY IN %	AVAILABLE SPACE	AVERAGE RENT
44	Bangalore, India	32M	3.0%	.96M	\$17.16
45	Chennai, India	29M	N/A	N/A	\$13.56
46	Hyderabad, India	N/A	3.7%	N/A	\$14.64
47	Mumbai, India	23.5M	1.4%	.33M	\$83.16
48	New Delhi, India - Metro	33.2M	2.3%	.76M	\$51.72
49	Beijing, China - CBD	148M	14.6%	23.6M	\$34.56
50	Hong Kong, China	49M	3.0%	1.4M	\$78.00
51	Shanghai, China - Pudong	38.4M	2.8%	1.1M	\$38.76
52	Taipei, Taiwan - CBD	17.3M	14.5%	1.2M	\$21.00
53	Tokyo, Japan - Central Wards	661M	3.0%	19.8M	\$126.00
54	Seoul, South Korea - Metro	69.1M	3.6%	2.5M	\$24.96
55	Singapore, Singapore	46.1M	2.7%	1.24M	\$116.52
56	Jakarta, Indonesia, Class A&B	38.7M	19.4%	7.5M	\$12.00
57	Brisbane, Australia - CBD	18.8M	1.0%	.19M	\$54.00
58	Melbourne, Australia - CBD	39.6M	5.9%	2.34M	\$25.80
59	Sydney, Australia - CBD	51.1M	7.3%	3.73M	\$34.68

Central/Latin American Office Market Survey

	CITY/COUNTRY	TOTAL SQUARE FEET	VACANCY IN %	AVAILABLE SPACE	AVERAGE RENT
60	Bogota, Colombia	17M	N/A	.30M	\$23.40
61	Buenos Aires, Argentina	8.9M	1.5%	.86M	\$27.84
62	Caracas, Venezuela	7.5M	5.0%	.37M	\$33.36
63	Lima, Peru	4.3M	7.0%	.26M	\$14.40
64	Mexico City, Mexico - Reforma	36M	4.5%	1.5M	\$27.84
65	Monterrey, Mexico	5.2M	11.5%	.28M	\$19.32
66	Panama, Panama	3.7M	11.0%	.35M	\$21.00
67	Sao Paulo, Brazil	24M	9.9%	2.3M	\$32.40
68	San Jose, Costa Rica	4.4M	5.0%	.22M	\$21.24
69	Santo Domingo, Dominican Republic	N/A	N/A	N/A	\$22.80
70	Santiago, Chile	23.8M	N/A	2.3M	\$32.40

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

What You Don't Know Can Hurt You

Continued from page 1

initial or base year. Most companies can't afford the time and energy to scour their rent bills for overcharges because it is hard enough to run their own business. A lease is a complicated document that requires the erudition of industry experts, such as a professional lease auditor who can catch seemingly minute mistakes that multiply over the years into major losses. Here are some typical areas of dispute:

- Inclusion of certain expense and tax pass-throughs—increased building operating costs are shifted or “passed through” to the tenant. However, most leases do not allow the pass-through of tenant-procurement costs, financing and ownership costs, building depreciation, or capital improvements.
- Establishment of an underreported base year—the rent stated on the lease supposedly reflects the full costs of operating and managing the building at the beginning of the lease year, or the “base year.” In case of inflation, the lease will also include an operating expense escalation clause, which dictates that the tenant will pay the levels of cost increased over the base year amount. However, the rent for the base year might have been underreported due to existing warranties and building vacancies. Landlords might also low-ball the base year to attract tenants.

Other common areas of dispute can include space issues and miscalculation of electricity fees. The landlord might discreetly make a profit at your expense by purchasing electricity in bulk and reselling it at market price.

Having a professional, exclusive tenant broker negotiate the lease can help head off many of these problems.

Now that we've discussed the areas covered by lease audits, when is the best time to have one? Here are four “occasions”:

- A base year audit is the most important audit. For a net lease, the base year audit would be done for the first lease year, since the tenant is responsible for paying its pro-rata share of all expenses starting on day one of the lease. This audit establishes the

proper expense level against which all future year's expenses will be measured, while documenting the landlord's methodologies for calculating the base-year expenses. This compels the landlord to determine expenses on an “apples to apples” basis. For a gross-lease, the audit should be performed the first year that the tenant is responsible for operating expenses or tax escalations.

- If building ownership changes hands, consider an audit. New owners look to improve their margins—often at the expense of the tenants.
- In the final year or two of its lease, an audit may provide not only financial reimbursement, but leverage for negotiating a lease extension.
- If the expenses rise beyond what appears reasonable, an audit may be appropriate. Review the year-to-year

increases in specific expenses before doing an audit. If expenses rise sharply year-to-year due mostly to increased utility costs, an audit is probably not necessary.

Which tenants would benefit from performing a lease audit?

The larger the space, the greater the potential for overbilling. A tenant should have at least 20,000 square feet before considering an audit since there are normally minimum audit fees, although in some instances a base year audit might be economical.

Paul Stevens (paulstevens1@comcast.net) is President of P.Stevens Associates, Inc., a lease audit firm that has saved tenants more than \$10.2 million since 2004.

ITRA Expands To Puerto Rico and Minnesota

THE INTERNATIONAL TENANT REPRESENTATIVE ALLIANCE (ITRA) ANNOUNCES THE AFFILIATION OF TWO NEW MEMBERS, IN PUERTO RICO AND MINNESOTA.



ITRA/Rios Commercial Corporation, under the direction of Vicente Rios, managing partner, a 17-year veteran of the real estate industry, is based in San Juan, PR. Mr. Rios, a graduate of Babson College in Massachusetts, founded Rios Commercial in 2003.

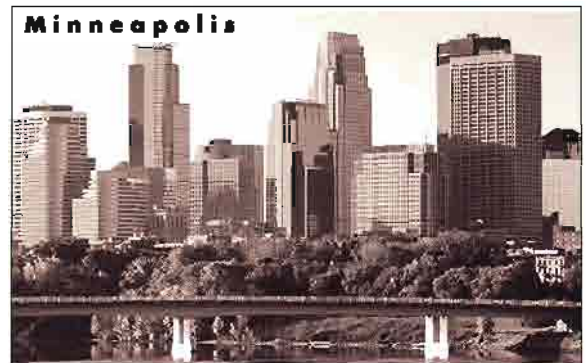
The firm may be reached at 1+787.765.1111, or by email, vrrios@itraglobal.com.

ITRA/The Tegra Group is based in Minneapolis. Since 1996, the firm has provided exclusive tenant representa-

tion services for a wide range of commercial, industrial and retail tenants, including Cannon Equipment, Polo Ralph Lauren Corporation, CIMA Labs and Room and Board.

The firm may be reached at 1+612.752.5755. Contact Tom Hauschild, principal, at thauschild@itraglobal.com, or Dan Johnson, senior associate, djohnson@itraglobal.com.

ITRA is one of the largest global organizations dedicated to non-conflicted, exclusive tenant representation.





● ITRA Locations

7/2008

GLOBAL OFFICES

NORTH AMERICA

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

LATIN AMERICA

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

EUROPE

Amsterdam
Athens
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Brussels
Dublin
Frankfurt
Istanbul
London
Madrid
Paris

ASIA / PACIFIC RIM

Bangalore	Mumbai
Beijing	Perth
Brisbane	Seoul
Chengdu	Shanghai
Chongqin	Suzhou
New Delhi	Singapore
Hanggzhou	Sydney
Hong Kong	Tokyo
Manila	Wuxi
Melbourne	

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