

CONNECTION

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INSITES



The More Things Change...

This edition of *Connection* highlights the ebbs and flows—as well as the tried and true—in commercial real estate.

Some things in our industry are destined to change—for the first time in history, tenants appear willing to pay to go green. Our Going Green feature on page 2 focuses on why business owners should consider LEED Certification. And some things remain constant, like the changing market and the start of a new real estate cycle that once again favors tenants, as discussed in our Market Trends story on page 2 and related Tenant Tips on page 3.

As always, it's important to keep apprised of the shifting real estate landscape and consider how you can protect your interests and maximize the value of your portfolio, especially in this unsettled economic time.

We also call your attention to our cover story and related Strategies that Save on page 3, where we discuss the advantages offered by tenant rep advisory firms that avoid conflict of interest, and our Client Corner on page 3, which profiles Comcast Corporation.

For more information, please visit us at www.CresaPartners.com, where you can find articles about conflict of interest and market forecasts as well as the latest market reports prepared by our 45 North American offices.

Bill Goade
Chief Executive Officer
CresaPartners, LLC

Interest Revived Over Conflicts in Commercial Real Estate: Tenants Should Put their Interests First

The potential for conflict of interest in commercial real estate is again making news as we approach the six-year anniversary of Sarbanes-Oxley, which enacted business reforms in response to corporate scandals. In surveys conducted by American business journals, executives report they are more sensitive to even the *perception* of impropriety and are practicing greater due diligence in outsourced relationships, including those with real estate firms.

The Watkins Research Group also addressed changing corporate perspectives and found much support for the model of tenant representation in which real estate advisors advocate for space users, not landlords, thus maintaining objectivity and accountability.

Seventy percent of corporate real estate executives (CRE's) surveyed cited "no conflict of interest" as critical in selecting a real estate service provider.

In traditional real estate firms, listing brokers often serve two masters: tenants and landlords. While this approach is common, it can be tenuous. Why? Because listing brokers have a *fiduciary responsibility* to bring tenants to their landlords' listings and maximize the landlords' asset, without necessarily considering what's best for the tenant.

"When tenants' needs and brokers' allegiances are incompatible, a conflict is inevitable."

When tenants' needs and brokers' allegiances are incompatible, a conflict is inevitable. This age-old maxim spurned the formation of tenant advocacy firms like CresaPartners.

Today, CRE's are more discerning about the bottom-line implications of potential conflicts, which can be costly. It's no secret that the largest real estate service providers derive about three-quarters of their revenue from owners and investors, with

only one-quarter coming from occupiers. It's only natural for these brokers to try to maximize the terms of each transaction *and* fortify long-term relationships with landlords. In contrast, non-biased tenant firms push the landlord for better terms and don't worry about jeopardizing

future relationships.

CRE's also appreciate that tenant rep firms provide ongoing corporate advisory services like strategic planning and project management.

Our advice to tenants? Put your interests first. Ask for full disclosures from brokers—regarding listings, fees, and commissions—on Day One.

For more tips on this topic, see page 3.

MARKET trends



Major Markets Hit High Watermark as Tide Turns in Tenants' Direction

On face value, it may seem that the commercial real estate market is still strong, with reports indicating high rental rates and tight vacancy in many metro centers. But we know that these statistics are better at reflecting the past than forecasting the future. On closer inspection, it's clear that the market has generally leveled off and is actually tilting in favor of tenants in many markets.

Some signposts:

- **Rents and vacancy adjust.** For the most part, office rents have reached a high watermark in most cities nationwide, and more space is coming online. We expect a generally balanced market for the next year or two, with rents correcting a bit in the tenants' favor.
- **Landlords get antsy.** Traditional landlords, as well as the new breed of outside investors, are reluctantly conceding that velocity is down and dynamics are changing. Intent on securing renewals and filling their buildings, they are beginning to tell brokers to "do what it takes" to hold onto their tenants.

- **Concessions grow.** Despite high asking rental rates, landlords are becoming more flexible regarding Tenant Improvement Allowances and free or phased rent. These concessions can translate to significant savings for space users.
- **CBD follows submarket trend.** Throughout the country, rents have already begun correcting in most suburban submarkets, which typically react quicker to a downturn than Central Business Districts; CBD's are following suit.

Why do we believe these trends will continue?

The recession is getting deeper, and more layoffs are expected in the coming months. And the credit crisis with sub-prime mortgages continues to reverberate, as the lack of available financing has brought building sales to a virtual halt. The upshot? Growth will be flat for the foreseeable future, and opportunities for credit-worthy tenants will be more abundant.

Of course, market conditions vary throughout the country. For more specific information, log onto our Tenant's Guide to North American Markets at www.CresaPartners.com.

NEWS FLASH ■ NEWS FLASH ■ NEWS FLASH ■ NEWS FLASH

Liberty Greenfield team joins CresaPartners Denver office to form the largest pure tenant representation firm in Denver.



GOINGgreen

Why Should Business Owners Consider Sustainability?

Increasingly, corporations are embracing the environmental, economic, and social elements of green design. The benefits can include reduced operating costs, increased worker productivity, and minimized environmental impact. It is reported that energy cost savings of 20 to 50 percent are common through energy-savings technologies, natural daylight, ventilation, and downsized equipment.

Major corporations recognize the corporate value of environmentally responsible business practices. How companies manage issues related to energy and the environment can significantly affect the success of their business. Whether you are a tenant occupying 20,000 square feet or more than 200,000 square feet, you can benefit from a high-performance office design.

Studies show an increase in recruitment and retention of people who work for companies that apply green practices in the workplace to create a healthier environment. And, with good indoor air quality, people are sick less often. Natural light plays an important role in the interior environment as well. Studies show this can offset the use of electricity, provide a higher quality of light than artificial lighting, and lead to a more productive workplace.

– Ellen Hanson, LEED AP, CresaPartners Chicago

STRATEGIES THAT save

As the economy falters, companies face increased pressure to lay off staff and cut costs. A great source of potential savings lies in corporate real estate, which represents a company's second-largest operating expense.

Whatever the market conditions, consider the following:

- Don't do it alone. We have found that companies can reduce total operating and occupancy costs by 10 to 30 percent if they engage an experienced real estate service provider.
- Consider the added value of tenant rep firms. We have also seen that tenant advisors typically generate greater savings than traditional brokerages because they more aggressively negotiate on behalf of tenants.
- Look into comprehensive corporate services. Beyond the terms of your lease, see how upfront project management can generate further significant savings.
- Demand customized solutions. Ensure that your real estate is aligned with your business plan.

TENANTtips

Leveraging Opportunities in a Shifting Market

As the market adjusts, tenants should seize the moment and expect more concessions in negotiations with landlords.

Some considerations:

- **Lock into long-term leases.** Tenants, particularly those who have strong credit and leases expiring within two years, have an opportunity to pursue early renewals and lock into leases of eight years or more. This presents a win-win scenario: Tenants can cut costs, upgrade space, and enhance lease flexibility while landlords can stabilize their rent flow.
- **Study options in advance.** With a typical transaction cycle time of about nine months, companies should begin to weigh their options early on. These include: stay or relocate, lease, buy, or sublet in their existing building or in less expensive submarkets.
- **Evaluate long-term planning.** Even if no transactions are in the offing, tenants should have a long-term strategic real estate plan that is tied to their business plan.
- **Hold your ground.** Overall, tenants should be patient and not buy any residual hype about inflated prices from landlords who may not be reading the handwriting on the walls of Corporate America.

If you're interviewing prospective advisory firms, ask to see a menu of corporate services, secure references, and request a complimentary audit of your real estate requirements.

corner

CLIENT

Comcast Corporation is the leading provider of cable, entertainment, and communications products and services in the United States with 24.7 million cable customers, 14.1 million high-speed Internet customers, and 5.2 million voice customers. Headquartered in Philadelphia, PA, Comcast has approximately 100,000 employees nationwide.

Comcast Corporation recently engaged CresaPartners Boston to advise the company regarding a 1 million square-foot portion of its Northeast real estate portfolio. Prior to being awarded this assignment, the team had been engaged over the last two years to identify two customer service locations in

comcast *"We have been very pleased with the successful working relationships we've formed*

with CresaPartners over the past few years and look forward to moving ahead as we collaborate on the development of long-term strategic planning in the management of our northern New England and southeastern Massachusetts portfolios."

– Tony Doar, Senior Director, Real Estate
Comcast, North Central Division

New England totaling 700 seats, as well as several consulting and transaction assignments. The Boston team will provide strategic planning and transaction management to Comcast for its portfolio, which consists of sales offices, payment centers, warehouses, and contact centers. The Comcast engagement includes southeastern and central Massachusetts, New Hampshire, and Vermont. We will also advise Comcast Spotlight, the advertising sales division of the company, throughout New England.

THE results

- CresaPartners represented Abundance Technologies in Cincinnati, a financial coaching and wealth management company, in a seven-year lease of a newly constructed 39,100 square-foot class A office building. Its new office will include a chef's kitchen, workout facility, and state-of-the-art audio and video recording studio.
- CresaPartners represented DS Ventures, LLC and Optical Communications Products (OCP) in a \$28 million sale of 148,500 square feet in Woodland Hills, Los Angeles, California. The new owner is planning to lease the building, which has 100,000 square feet of office space and 48,500 square feet of warehouse space that can be converted to office space.
- CresaPartners Miami represented Bilzin Sumberg Baena Price & Axelrod LLP in a 10-year, 115,000 square-foot lease, totaling \$58 million with rent, in the developing Brickell Financial Centre in south Florida. Brickell Financial Centre is the first of three new class A office buildings under construction to land a major tenant and will seek LEED gold certification when completed in 2010.
- CresaPartners represented Zipcar, Inc. in a lease for a 7,500 square feet, five-year term in New York City. Zipcar, the world's largest car sharing and car club provider, is relocating from 1,500 square feet. The new space is not only a 500 percent expansion, but is in a high-quality area with significant pedestrian traffic, a private entrance, and prominent exterior signage. In addition, Zipcar can install fluorescent lighting from the second floor interior to project over the street below.

UNITED STATES

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