



To Leasing Office Space in Greater Hartford, CT

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Market Size:

Within the 800 square miles of Hartford County, there are 29 Towns housing over 1100 buildings containing approximately 48M SF of office and flex space. While we track the entire 1100+ building inventory, for professional market reporting purposes, we report only on 371, non-owner occupied, non-medical nor State owned or leased buildings in excess of 10,000 SF.

The Greater Hartford office market is broken down into five sectors: the North, South, East and West suburbs and the CBD (Central Business District- All Hartford addresses). The four suburbs collectively have nearly 13.8M SF while the CBD has just over 10.1M SF. Towns in the suburbs with significant office development are Windsor to the North; Rocky Hill to the South; East Hartford and Glastonbury to the East; and Farmington to the West.

Types of Space:

We classify spaces into four categories:

Class A: which are generally not older than 15 years; well located investment grade properties commanding the highest rents, ADA compliant, and boasting most/all of the "bells and whistles" required by today's tenants such as wi-fi, fiber or T1-T3 connections; high-speed interactive elevators; demonstrated life-safety and security programs; on-site management; energy management systems on sophisticated HVAC equipment, etc.

Class B: which were the "A's" of yesterday; now prone to some obsolescence but still utilitarian; i.e., older, slower elevators; large columns; older HVAC systems; smaller floor-plates; etc. Some "B" property owners are wisely making upgrades to their facades, intelligence systems and public/common areas to better compete with the "A" product for usually substantially lower rental dollars.

Class C: these are the no frills, older; lacking prestige; some wood-frame structures; command generally lower rents; they sometimes serve as short-term swing spaces for tenants awaiting new product.

Flex-type: these are generally single-story, versatile and usually found in research & development areas/parks or within industrial/distribution settings.

Varying blends of both office and warehouse/distribution spaces are found within these flex buildings. They have served the market well as an economical answer to the office user that has a higher than normal employee density, budgetary constraints and minimal intervention with the public/customer sector.

Rentable versus Usable Measurement:

Try to think of usable footage measurement as the space you can "reach out and touch". Rentable is the usable amount plus your share of the common areas of the building that you utilize; i.e., lobbies, restrooms, hallways, etc. In the suburbs, this "common area" space is generally around 12-15% of the total building area. Example: if you rent a 10' x 10' office or 100 SF, you'll pay rent on 112 to 115 SF. Flex buildings usually don't have any common spaces so rentable and usable measurements are basically the same. In the CBD high-rises, one can expect the common area factors to be in the low to mid 20% range. In this Hartford area market, almost all property owners charge rent on net rentable footage amounts.

Rental Rates: Gross vs. NNN:

The terms "gross" and "full-service" indicate that both the base rental charge and the availability of the basic services necessary to comfortably occupy space are included in the rental rate. During normal business hours, a gross rent generally provides for inclusion of: all utilities (except telephone and internet/cable/fiber service); including heat and air-conditioning in season; electricity for power, plugs and illumination; water for drinking and lavatory purposes; five day per week custodial service for tenant interiors and building common areas; landscaping and snow removal, base property taxes, building insurance and building security, if any. The tenant basically remits one (rent) check every month, which covers the cost of occupying space within the building; except as may otherwise be noted.

Rates quoted as NNN or "modified net" indicate that none or some of the services (normally provided under a gross/full-service arrangement) are included as part of the base rate. The tenant might be responsible for directly contracting with the applicable service providers for those desired services/utilities not provided through ownership. Property owners allow tenants to receive those services through the owner's base building equipment infra-structure. Under this arrangement, the tenant generally sends several checks out each month; i.e., one to the property owner for the base rent and other checks as required to the providing service/utility vendors.

Observations:

The basic positive for a NNN arrangement is a tenant can better control its expenses. The basic negative for NNN: a tenant has to act as administrator to insure services are bid, provided as contracted and paid for.

Generally Class “A, B & C” office rental expenses are quoted on a gross/full-service basis while flex space leases are quoted on a NNN or modified net basis.

Rent Ranges:

Remember that all rentals are negotiable! The price a tenant pays is generally a direct result of the importance placed by both owner and tenant on making the deal at hand. Length of lease terms, tenant credit, and proposed use of the space are significant factors in the owner's decision process while the tenant tries to maximize flexibility in term, rent outlay and space configuration. The owner's and tenant's leasing preferences tend to oppose each other. Hence the importance of having a deal facilitator involved; i.e., a professional real estate broker/provider to bring the parties together.

Asking office rentals for class “A” space have been ranging from \$19 to \$24.00 per square foot in both the suburbs as well as the CBD. This is an annual number so (multiply by the rentable SF and) divide by twelve to get the approximate monthly rental exposure. Remember that this is gross/full-service.

Class “B” rentals are usually a few dollars less and “C’s” are a few dollars below that.

The average costs for services and utilities to a Greater Hartford suburban office building currently range from about \$7.00 to \$8.50 per SF. These costs are included in the quoted gross/full-service rates but, since they go up more frequently than down, periodic adjustments have to be made. Annually, after the first lease year, property owners will calculate and pass along any increases in the costs of services and utilities provided to the tenants of their properties. Another name for this pass-through is “escalation”. Adjustments are handled on an annual basis in direct proportion to the amount of space a tenant occupies in a building in relation to the entire building square footage. Historically, increases have been tracking pretty close to the cost of living indexes; i.e., 2-3%/year.

Remember that this 2-3% increase is attributable to the \$7.00 - \$8.50 numbers mentioned above, not to the entire rental rate. Therefore you might expect to see an annual increase of \$.15 - .25 P.S.F; and it is cumulative. Property owners who effectively manage their operating costs earn bragging rights; they want to keep operational costs down as a means to attract and retain tenants. One of the standard, uncontrollable expenses, utilities, is creating added resistance to the owner's well-intentioned efforts.

The expenses to operate a CBD property are approximately \$2 - 3 P.S.F. more than that of a suburban property; the increases are primarily attributable to property taxes, on-site management and security personnel expenses.

The NNN costs for flex buildings are generally lower because of a) difference in product quality; b) property taxes are lower in industrial areas vs. office and c)

the tenants pay for their own utility consumption and interior cleaning services. When trying to make an “apples to apples” comparison from NNN to gross, we suggest using a range of \$12-\$15 P.S.F. as the average gross rate range for most newer *flex* buildings having a substantial (50+%) percentage of office build-out.

Length of Lease Terms:

Most owners prefer initial terms of five (5) years or longer because longer leases a) are more financially or re-financially and b) they elongate the amortization of tenant improvements and brokerage fees thereby keeping owner's effective rates in closer proximity to market conditions. If there were only a minimal amount of improvement work required to the space under consideration, then most owners would consider a shorter term; i.e., three (3) years.

Options to Renew and Expand:

Most property owners will provide a new (to the building) tenant with at least one (1) extension option similar in length to the initial term. To exercise, tenants must provide advance notice of intent and not be in default. Some property owners will try to pre-set future term rates; others will agree to define it as market value for like-kind properties at the time of extension. Options always favor the tenant.

Guaranteed expansion options are rare even to the largest of tenants. Rights of first refusal subject to (other) existing tenant(s) lease options are more commonplace. Owners might give the option to expand if a tenant guarantees to take it; sometimes called a "put".

Tenant Improvement Allowances:

If the space(s) have never been built out (raw), a tenant could expect to receive between \$20 and \$25 P.S.F. (based on rentable footage) as an improvement allowance to complete the space for occupancy. If the ceiling is in and re-usable, the allowance might only be \$10-15 P.S.F. Some property owners prefer not to quote improvement allowances; i.e., preferring first to determine what the tenant really needs and then building the space out turnkey (using building standard materials) for the rate quoted. This avoids always potentially, uncomfortable discussions about disposition of allowance overages/credits.

Space Planning:

Most property owners will (after determining the seriousness expressed by the tenant in making a deal at the owner's building) arrange for their (owner's) architect to work with the tenant prospect in developing a complimentary, basic plan from which more defined construction numbers and a final rate quote can be developed. These plans are sometimes referred to as "tenant teasers".

Rent Concessions:

While tenants always ask for them, today, these are relatively scarce and have been for the last couple of years. At this time, a triple-A credit tenant can get a month or two of rental waiver but the owners generally compensate for the "give-a-way" by adding it to the term of lease; i.e., writing a five (5) year and two (2) month term.

Time needed for Construction:

After the improvement plans are finalized (and leases signed), the property owners have to pull permits, hire subs, order materials and build the spaces out. Depending upon the existing condition of the spaces, this could take anywhere from 30 to 150 days, on average. Plan accordingly.

Beneficial Access:

Most tenants need a couple of weeks prior to officially taking occupancy to ready their new spaces with furniture/equipment and telephone systems, data and telephone cabling, etc. Most property owners will provide the tenant's vendors with such early set-up access to the space under consideration at no rental charge.

Leasing Timetable:

If your lease is scheduled to expire this year or next or you are looking to establish a new office, you should allow yourself enough time. Enough time to adequately survey the marketplace; enough time to compare the alternatives to a renewal in place; enough time to make an informed decision as to your best course of action; and, of course, enough time to maximize your own company's leasing leverage through a timely and effective negotiation process. We found that most leasing transactions take a minimum of 4.5 to 7 months to complete; from initially looking around to taking occupancy!

Sublease and Assignments:

Most property owners have no problem agreeing to these types of clauses; provided the quality level of tenant occupant is upheld and the sublet use is consistent with building design. Most property owners will ask for *recapture* and *no-profiting* clauses. In the former situation, owners have the right to take back the space...if in an owner's best interests. In the latter instance, the tenant would be precluded from making money on the rented space. Any arbitrage would accrue to the owner. These are certainly negotiable points in lease negotiations.

Security Deposits:

This is still a viable leasing factor; final amount depends upon financial strength of tenant. Usually one to two months of the average base rent. When Security Deposits are provided it generally precludes the need for Personal Guarantees and Letters of Credit.

Building Hours:

Normal building hours are generally 7:00 A.M. to 6:00 P.M., Monday through Friday and 7:00 A.M. until 1:00 P.M. on Saturdays. Building access is usually provided on a 24/7/365 basis.

Parking:

To date, charges for surface parking has been included in the rental rate at suburban office buildings. It is an expected amenity. The parking ratio allowance ranges from 3 spaces per every one thousand SF rented, (AKA 3/1000) up to 5.5 spaces/1000. The average is an allowance of four (4) spaces for every 1,000 SF of rented space. Tip: it is also a good indicator of how many people could/should occupy 1,000 SF. A few suburban buildings have complimentary, covered parking; some owners occasionally charge extra for that luxury, others don't.

In the CBD (Hartford address), parking varies all over the lot. No pun intended!

Surface, uncovered parking within a 10 block walk can run \$ 50.00/month or one can currently pay as much as \$250/month/space for unrestricted access parking in an attached ramp. Parking ratios range from 1/1000 (one space for every 1,000 SF rented) to 2.5/1000 in the high-rises. On average, unrestricted ramp parking averages approximately \$185/month.

Lease Document Preparations:

Property owners generally like to use their forms as a basis from which a final draft is drawn. Owners claim the reason is that they have already run the format by their mortgagees and it will expedite the leasing process. Some larger tenants insist on using their forms to memorialize the arrangement. In the end, whatever best accomplishes and expedites the process is generally chosen.

After Hours HVAC:

If the after hours use is only occasional, you probably won't have to pay. If you're a consistent after hour's user or run a shift plus, then you might have to pay \$35-

50+ per hour depending upon the size/type of the HVAC system. Could get expensive if a tenant has to turn on a full floor for only a partial use!

Security Systems:

Most CBD buildings have on-site security staff while suburban product does not. Security systems vary from lock/key and swipe cards to proximity readers. Individual suite security is generally at the tenants nickel.

Building Directories/Signage:

Most buildings will provide a complimentary directory listing at the main directory board and on individual floor directories. Individual suite entry identification will usually be uniform and at the tenants nickel.

In Summary:

We hope that by enhancing your understanding of leasing practices in this market, we have taken a step closer to becoming your preferred real estate provider in whatever market you have a requirement. Please call on the author or any other SIOR professional. We are available and eager to service your real estate needs in Hartford or anywhere around the globe.

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