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Construction pricing rises with demand for Class A office build outs - by Doug Martin

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It is great to hear how busy so many brokers in the commercial real estate world have been over the past few quarters. To see so many companies, in a variety of industries, experience growth and the need for more space is also a welcome sight for landlords throughout southern New Hampshire. Vacancy rates continue their modest declines as larger chunks of quality space are becoming harder to find and lease rates are starting to tick up. A number of Class A office properties in the Greater Manchester/Bedford market are enjoying near 100% occupancy.

The flight to quality continues in the market. Office tenants are continuing to improve their space to accommodate an ever-evolving work force that is changing the way people work. Many employers are looking for incentives that they can offer to help motivate their employees with finishes that improve team collaboration, creativity, and make the office a “cool” place to go to.

One of the biggest obstacles lately for landlords is how the increased demand for space is affecting construction pricing. Everyone from the designers and architects to the general contractors and their subs are busier than they have been in some time. Previous guidelines that were used for tenant improvements have changed dramatically, increasing by as much as 25-30%.

How do landlords and tenants address this issue? The first step is to work together to value engineer the design of the space, while still maintaining the overall quality of the finish. A lease deal may also reflect a slightly higher rental rate, or the initial term may be extended to allow for additional amortization of build-out costs. In some cases, out-of-pocket tenant contributions are necessary to achieve the look and function of the space desired.

As this busy economy continues, it is important to keep an eye on construction costs in the market as they have a direct impact on both the landlord's and tenant's ability to finalize a deal. Proper planning and open communication between landlord and tenant throughout the transaction offers an opportunity to deliver some extremely innovative office space with mutually beneficial terms for all involved.

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