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Has office technology peaked? How much more productivity is there left in the adm. work force?

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Back in the go go years, we used to look forward to the Dog Days of summer, but when the market is only chugging along at 70%, the brokerage side of the shop will be working hard to nudge deals toward the finish line. There is so much hyped up negative press and TV that both landlords and tenants are skittish. We may or may not be in a recession, a technical term for little or no quarterly GDP growth.

There is plenty of space available to lease. Vacancies run 11-20%. There are some tenants looking. Operating costs are rising, especially real estate taxes, utilities and this past winter, snow plowing costs. We have historically tracked real estate taxes and common area maintenance (CAM) costs at \$6-\$7 per s/f. But today they are north of \$8 per s/f and climbing. In town, tenants have parking costs for employees as well, which can add the equivalent of \$1-\$3 to their rent.

We are currently working on a handful of office leasing requirements with tenants that have been in their space for more than 10 years. The space is tired and now either too big or in two cases, too small. While there are several options to choose from, the asking rents are in the mid teens to low 20's. In most cases, this represents an increase for a tenant that struck a good deal in the early or mid 1990s and has been slowly inching up since then. Many properties have sold at aggressive cap rates and the new owners are now seeking aggressive rents in a soft market. One other cost factor is the historically high cost of fit up. Replacing existing carpet can easily range from \$2-\$3 per s/f. Painting is over \$1 per s/f and moving even a few walls is several thousand dollars. These are tasks the landlord usually agrees to do but the tenant has phone and data wiring (\$25-\$75 per employee) and systems furniture, easily \$200-\$300 per work station to disassemble, move, reconfigure and reassemble. So moving an office is not cheap.

There can be a silver lining to this cost cloud. Tenants need to think really hard about how many work stations, offices and conference rooms they need! With few exceptions, tenants want to only commit to 3 or 5 years leases. If they do go longer, there is usually a provision for an early termination with some kind of payment.

Half way through 2008, we are coming off an extraordinary period of productivity enhancement. Technology has allowed us to do more with fewer people. Each employee is now more productive than they were 8-10 years ago. Email does save time and money in most cases, but drags out some transactions. In a negotiation of a commercial lease today, rarely do all the parties meet face to face in a room and hammer out the final details. Instead, email chains and conference calls attempt to replace these meetings. It works for many transactions, but not all. Sometimes as the broker, we feel we have to convene that face to face meeting to either get the deal back on track or simply dot the final i's and cross the final t's.

There is also the challenge of getting all the parties working from the same electronic draft.

Often in an email chain, one recipient will make changes, send it "reply to all" but not everyone picks that revision up. Instead they make edits to what they think is the latest version and then two versions are circulating simultaneously. If there is not a gate keeper, keeping everyone on the same page, so to speak, confusion can reign. This applies to architectural, engineering and construction documents as well. New or revised plans are sent to all, but often without a clear cover sheet explaining what changes have been made and should be reviewed carefully. We find new technologies are now used routinely with most folks we deal with on a regular basis. But every new client or agent takes some getting used to for both form and substance.

So we expect no Dog Days of summer in 2008. We will be working diligently and steadily trying to get transactions wrapped up for Labor Day. We do not see an up tick for the balance of the year. We feel energy and transportation costs will continue to be a drag on the business sector. We do not see a sudden and dramatic drop in oil pricing. So the costs of doing business continue to rise and if companies cannot raise unit pricing, they must either hack away at expenses or increase volumes. It sounds easier than in reality it is to successfully execute.

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