Anatomy of an Office Building
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Course Description

This course, while specifically designed for someone interested in getting into the field of office building development and management, is equally suitable for the office building professional who aspires to a more thorough understanding of office building operations.

Topics covered include:

• History of the Office Building
• Market Analysis
• Marketing and Leasing of Office Space
• Lease Administration and Rent Collection
• Life - Support Systems
• Maintenance of the Physical Plant
• Energy Management
• Insurance Requirements
Anatomy of an Office Building

Classroom Course Outline

3 Hour Course

Section 1 - History of an Office Building 15 Minutes
Section 2 - Market Analysis 60 Minutes
Section 3 - Marketing & Leasing Office Space 45 Minutes
Section 4 - Maintenance & Life Safety Issues 30 Minutes
Section 5 - Insurance 30 Minutes

25 Question Final Examination
Anatomy of an Office Building

Learning Objectives

After completion of this course, you should be able to:

1. Discuss the history of the office building.
2. Describe a market analysis.
3. Discuss measuring supply and projecting demand.
4. Identify and describe the four classes of office buildings.
5. Describe a neighborhood analysis.
6. Describe a property analysis.
7. Identify the five office building service priorities.
8. Identify the nine commonly used methods of attracting prospective tenants to office buildings.
9. Identify and describe the tenant prospect qualifications.
10. Identify the standard provisions in an office lease.
11. Identify and describe the maintenance and life safety issues.
12. Identify and describe the types of insurance for office buildings.
Section 1

Definition of the Office Building

The office building can be a single or multi-story building designed for conducting business or a profession, usually divided into separate, rentable offices.

An office building, also known as an office park or business center is a form of commercial building which contains spaces mainly designed to be used for offices.

Understanding the complexities of modern office buildings, however, requires more than a simple definition. By understanding the history of the office building and how it has evolved into what it is today, will help you gain a better understanding of office building development and management.

History of the Office Building

Ancient Rome, the Middle-Ages, and the Renaissance all era had office buildings. So, the concept is not new. However, our discussion is limited to the modern office building.

The modern office building industry was created in the nineteenth century. Between 1870 and 1920, the nation's population doubled, and demand for office space increased five-fold as office-related occupations such as financial analysts, advertising specialists, typists and clerks began to emerge.

The first significant benchmark came in 1878 when the first office building with elevator service was constructed in New York's Wall Street area and represented a triumph in overcoming the problem of vertical transportation. Elisha Otis invented the safety elevator. Prior to his elevator, there were many others throughout history that were extremely dangerous because they had no safety stops.

The next benchmark was the invention of steel which resulted in a much lighter structures, allowing for the development of higher buildings. The decrease in price of steel (between 1867 and 1995 the price decreased approximately 85%) also contributed to the development of modern day skyscrapers.
Before the invention of steel, construction was based on load-bearing masonry, such as brick or concrete block. The practical limit of such construction was about ten stories at best. An example of the masonry limited building would be the Monadnock Building in Chicago.

An example of the steel construction building would be Willis Tower, formerly known as the Sears Tower, in Chicago. It is 108 stories high. Until recently, Willis Tower was the tallest building in the world.

Today, the world’s tallest structure is Burj Khalifa in Dubai, United Arab Emirates. It has 160 stories.
Steel also permitted movable interior partitioning, which allowed office suites to be reconstructed to meet the demands of new tenants. This is a huge cost savings to the building owner because redesigning office space from one tenant to another doesn’t require structural changes. However, when removing and adding walls, it may be necessary to change the location of HVAC supply and return ducts as well as electrical wiring and lights.

In many modern office buildings, spaces are built in one large area and instead of building walls for separate offices, cubicles are utilized to reduce costs, provide more flexibility, and avoid having to alter the HVAC system and overhead lighting.

After World War II, office building development continued at a steady clip. The office industry was expanding, capital investments were being made, business machines were making new demands for space, and office building construction was becoming more national in scope.

The 1950's and 1960's witnessed two trends that had a profound impact on the office building industry: i) the "white-collar revolution" where the employment structure shifted from industrial and agricultural to an office-related economy; and ii) the new movement in architecture. The modern trends in office building designs include:

- open-air plazas
- interior atriums
- people-oriented spaces
- extensive use of a combination of steel, concrete, and glass
- international styles
- green buildings
- high-tech ready office buildings
Section 2

Market Analysis/Feasibility Study

This section focuses on the process of performing a market analysis, a neighborhood analysis and a property analysis. This process is done by a licensed appraiser in an appraisal. Each appraisal includes a determination of the property’s highest and best use, or that use which will bring the investor the highest return on investment. For residential and many other properties, typically, the highest and best use is the existing use. When the highest and best use is not obvious, one should obtain a feasibility study.

The feasibility study contains a market survey, which is done by interviewing surrounding property owners and tenants. Based on the survey, the appraiser determines the highest and best use. To assure that the property is suitable for the buyer’s/investor’s purposes, it may be advisable to obtain the feasibility study before getting an appraisal.

One should always obtain a feasibility study from an experienced appraiser when the highest and best use is in question because of changing physical and economic conditions in the market area before:

- developing new property,
- purchasing existing property, or
- doing substantial rehab on an existing property.

If the feasibility study results in a highest and best use for an office building, then the market analysis continues for that type of property.

Market Analysis

A market analysis is a prerequisite to:

- designing an effective marketing strategy,
- determining lease terms and provisions, and
- establishing accurate rental rates.

A market analysis reveals the correct market for your property and then evaluates it by the standards of that market.
The process of analyzing the market and relying on this analysis to set market rates becomes most important when related to proposed developments, since a market analysis can ascertain if the demand for new office space exits.

A market analysis is a detailed process of gathering and interpreting information, a compilation of facts and judgment. The analyst must determine the inventory of existing office space and the probable demand for it, appraise the neighborhood in which the subject property is located, evaluate the property itself, and then relate the property to the competitive market and to its neighborhood. The objective being to have information needed to make a sound decision as to the likelihood of increasing occupancy in a building without under-pricing its space.

In performing a market analysis, the demand for office space must be projected and related to the supply. Before projecting supply and demand, the market area must be defined, because the measurement for supply and demand will be within the market area.

In analyzing supply, the most important factors are:

- existing and planned office space and
- the competitive environment.

In analyzing demand, the key factors are:

- population and
- the employment level.

In both cases (supply and demand), the economic background of the community has an impact.

There are various ways of measuring office space:

- **full floor net - rentable method.** One way of measuring space is on the full floor net - rentable method. This basis includes certain common areas, such as lavatories, hallways and elevator vestibules.

- **multi-tenant net - rentable floor method.** Another method is the multi-tenant net - rentable floor method. This measure deletes the common areas described above. The multi-tenant net - rentable measure frequently is referred to as the usable square footage area.

- **BOMA multi-tenant net - rentable floor method.** The BOMA method of measurement calculates the net - rentable area of a multiple tenancy floor, whether above or below grade, to be the sum of all rentable areas on that floor. The rentable area of an office on a multiple tenancy floor shall be computed by measuring to the inside finish of permanent outer building walls, or to the glass line if at least 50% of the outer building wall is glass, to the office side of corridors and/or other permanent partitions, and to the
center of partitions that separate the premises from adjoining rentable areas. No deductions shall be made for columns and projections necessary to the building.

Today, the majority of office buildings use the full floor net-rentable basis. On multi-tenant floors, a load factor generally is applied to the usable area so that the total square footage leased and charged for is equal to the net-rentable area on a full floor basis.

The second preliminary step is for the analyst to determine the area to be included in the survey. Focus should be on those buildings within the subject property's market area. Once defined, this area becomes the basis for analyzing the relationship between supply and demand.

**Measuring Supply**

Establishing a listing of existing office space is necessary. A distinction must be made between competitive space and non-competitive space.

- Competitive space refers to space in the open market, comparable to that in the subject building that will vie for the same prospective tenant.
- Non-competitive space is the office space occupied by owners or long-term tenants. Some buildings contain both.

Essential to analyzing the supply factor is judging the competitive atmosphere. Supply would be miscalculated if analysts failed to recognize that office space is not homogeneous. There are many types and grades of office space. The analyst should inventory net-rentable area according to the quality of the space and the services and amenities offered. In this way, the competitive pressure on the subject property can be gauged.

**Competitive pressure factors** to be considered are:

- the ages and locations of buildings,
- rental rates,
- tenant mix,
- vacancy rates,
- standards of maintenance,
- amenity packages, and
- operating expenses.
The importance of these factors may vary between high-rise and low-rise buildings, old and new buildings, and downtown and suburban buildings. What is important is to determine what is required locally to maintain high occupancy levels at market rental rates with satisfied tenants.

A property grading system is also useful in making comparisons. Typically, office buildings are categorized as Class A, B, C or D. These categories are not based on architectural styles. Instead, they are based on physical amenities and location.

- **Class A Buildings** are the most prestigious; offer the most desirable amenities; are in the best location; are relatively new; have high occupancy rates; and rental rates are high, but competitive.

- **Class C Buildings** have noticeable deficiencies; usually much lower rents; generally older and un-renovated, but in good condition; and have good occupancy.

- **Class B Buildings** come between Class A and C properties both in quality and price. They are older; fully renovated to modern standards; prime location; high occupancy; and competitive rental rates.

- **Class D Buildings** are buildings which have reached the end of their functional life; are in poor condition; have low rental rates; and low occupancy.

Once the first market survey is completed, the inventory of available office space in market area should be updated regularly to account for the effect on local supply of:

- New office construction, including remodeled space

- Tenants who reduce their office space requirements or withdraw from the market

- Construction planned but not started.

Discovering where new projects are to be built is important in citing trends that may be occurring in the metropolitan area. Urban renewal projects have a tremendous impact on the office building industry by revitalizing downtown areas. In some cases, downtown office buildings are competing with larger, well-planned suburban office complexes and the amenities they offer. This can exert more pressure on downtown buildings to properly maintain their buildings in order to satisfy tenants at optimum rental rates.

**Projecting Demand**

An office space inventory means little unless it is complemented by a projection of the demand for that space and a probable rate of absorption. One of the factors of real estate demand is population. Information is needed on the market area's population, growth or decline and the relationship between this growth and the area's office-oriented business activity. The ratio of population to office space varies among cities. In cities that are primarily service centers, more office area will be needed per capita than in cities where manufacturing is the primary source of
employment. In a city with a healthy economic base, it is likely that this ratio will remain fairly constant; therefore, by determining this ratio and projecting population trends “for the area, future office space requirements can be estimated.

In analyzing the market, one should be aware of the chief sources of office space demand:

• Existing tenants already occupying space within the community that are undergoing internal expansion.

• Firms that want to improve their office environments (move from Class B to Class A buildings).

• New business formations or existing businesses that are establishing branch offices.

• Businesses relocating from other communities into the community being studied.

• Office space that is removed from the supply.

**Computing the Absorption Rate**

An absorption rate is the expression of net square feet of office space absorbed for the measured period, usually one year. The role of the market analyst is to predict the amount of space that is being absorbed annually after considering the factors of supply and demand.

When historical information is coupled with current supply and demand data, the analyst should be able to estimate the time needed for the space in a given office building to be absorbed. In the case of a proposed project, the absorption rate is used to predict leasing activity in order to substantiate a development plan to obtain financing. In the case of an existing building, the absorption rate is useful in establishing a rental schedule and estimating the amount of space to be rented over a given period of time for the purpose of budgeting.

In the ideal situation, supply somewhat exceeds demand. A slight vacancy is preferred because it permits tenants the opportunity to move or to expand and remain in a desirable building.

**Neighborhood Analysis**

The office building is an integral part of the neighborhood, and its future parallels the neighborhood’s future; therefore, the economic, social, physical and government forces influencing the neighborhood must be looked at as part of the market analysis in order to evaluate the property’s competitive potential.

A neighborhood is “a grouping of similar or complementary land uses.” A Commercial neighborhood, then, is one in which land use is devoted principally to office buildings and retail establishments.
Sound judgments about a neighborhood and an office building within its boundaries cannot be made without knowledge of government restrictions. Zoning, pending changes for land use, and building code revisions should be reviewed regularly, since incompatible land use can destroy the locational value of a neighborhood. Tax burdens also must be considered. It may be necessary to examine the local structure of assessed valued and tax rates for their effect on the values of office buildings. All city planning and urban renewal projects that concern a building's neighborhood should be analyzed as programs of land re-utilization can have a tremendous impact on a neighborhood as well as overall market trends.

The economic structure of a neighborhood requires careful thought. Neighborhoods change. Information concerning a neighborhood's employment base, population, rent levels and vacancy rates can be used pinpointing trends. The degree to which a neighborhood has been, or is being, improved is significant evidence of change. If new construction occurs, it is a sure sign of growth. On the other hand, poorly maintained buildings, numerous vacant lots, and vacant store fronts reflect declining conditions.

The cost and frequency of public transportation and the time required to reach the building all have a direct effect. Where private transportation overshadows mass transit, ample parking must be available and the property must be accessible to highways. Even street layout and traffic restrictions can influence an office building's desirability. One-way streets and prohibitions against over-sized trucks can create hardships or influence building desirability.

A factor that is more social than economic but which requires careful attention is tenant demand for community services and amenities. An office tenant will want to locate in a neighborhood that contains various kinds of restaurants, shopping facilities, health clubs and proximity to hotels and airports for the convenience of traveling employees and out of-town business associates. If cultural and educational facilities are available, they heighten a neighborhood's and an office building's desirability.

Another consideration is the overall quality of the area surrounding the office building. General appearance, level of city services and nearby buildings, influence an office building's competitiveness. In the ideal neighborhood, older buildings are well maintained; architectural styles are compatible; the environment is free from distracting odors, dust and noise; and utilities are adequate to serve the building and its tenants.

**Property Analysis**

Too often, market analysts fail to thoroughly inspect and evaluate the subject property and relate it to competitive structures. Without studying the subject building, there is no way to predict how its space and services will compete in the market nor accurately establish its rental schedule.

A comprehensive property analysis includes interpretation of an office building's:

- Location
- Design and Improvements
Location

A well located building can command the highest rents in the market area, even though it may be inefficiently designed and poorly maintained. A poorly located building may not generate enough income to cover operating costs.

Locational criteria include convenience to restaurants, shopping, entertainment, banks and financial institutions, public transportation and highways, and supportive business services. The type of tenant will have an impact on the relative importance of each of these criteria.

Design and Improvements

An office building's design and the measure of its improvements are important criteria in analyzing its competitive strength. Another determining factor is the age of the building. If the building's age is not known, the type of construction should provide a clue. Older buildings, usually because of functional obsolescence, may be at a disadvantage in the market unless they have been modernized and are in choice locations.

The efficiency of an office building also must be rated. Efficiency is the ratio of the net rentable area, which is space used and occupied exclusively by tenants, to the gross area, which also includes the building's core. The more efficient an office building's layout, the greater is its rental value.

Other factors may affect the efficiency of an office building. Design can determine the degree to which a building is efficient: an odd-shaped building usually being less efficient than a square or rectangular building.

Floor-load capacity is an important factor whenever tenants desire the maximum use of floor space.

An evaluation of parking facilities should be part of the property analysis. Where public transportation is limited, it would be impractical not to have a parking garage or parking area either adjacent to or within the office building.

Interior space design cannot be disregarded either. Ceiling height and corridor widths can affect tenant improvements. The degree of flexibility permitted by these factors for arranging tenant suites will affect a building's desirability.

If a building is architecturally unique in any way, this fact should be weighed as a potential benefit.
Services

Certain types of services have high priority in an office building:

- **Maintenance and Janitorial Service** - General maintenance is essential to all office tenants and can affect a building’s competitive standing.

- **Elevator Service** - Poor elevator service can force current tenants to relocate and discourage prospective tenants from considering the building.

- **HVAC System** - Office building tenants require up to date climate control. If a building cannot be cooled adequately in the summer and heated comfortably in the winter, its marketability will be affected adversely. Maintaining a high standard of air quality in the building is essential for the health and safety of the occupants.

- **Security** - Working in a building that is not safe and secure jeopardizes both tenants' employees and personal property.

- **Management** - The better and more experienced tenants are recognizing the difference between well-managed buildings and poorly managed ones.

Tenant Profile and Lease Provisions

Another aspect of the property analysis is the gathering and interpretation of information concerning the office building's tenancy. In an existing building, the analyst will concentrate on current tenants. In a new building, an analysis of the proposed tenancy is necessary. Many office buildings establish reputations for accommodating specific types of tenants; for example, medical office buildings and government buildings etc.

The property analysis should contain a study of lease provisions. Current information on escalation and renewal clause terms is vital. Renewal provisions can be deciding points when trying to project a major tenant move or relocation.
Section 2 - Review Quiz

1) A market analysis involves placing a property within its correct market and then evaluating it by the standards of that market.
   a) True
   b) False

2) A market analysis is a detailed process of gathering and interpreting information.
   a) True
   b) False

3) The BOMA method of space measurement calculates the net-rentable area of a multiple tenancy floor to be the sum of all rentable areas on that floor.
   a) True
   b) False

4) Office buildings are classified as:
   a) Class A
   b) Class B
   c) Class C
   d) All of the above

5) A factor of real estate demand is population.
   a) True
   b) False

6) Which of the following are sources of office space demand:
   a) Existing tenants
   b) New business formations
   c) Office space that is removed from supply
   d) All of the above

7) An absorption rate is the expression of net square feet of office space absorbed for the measured period, usually two years.
   a) True
   b) False
8) A commercial neighborhood is one in which land use is devoted principally to office buildings and retail establishments.
   a) True
   b) False

9) Office building efficiency is the ratio of the net rentable area to the gross area.
   a) True
   b) False

10) The property analysis should contain a study of lease provisions.
    a) True
    b) False

Answer Key

1. A  6. D
2. A  7. B
3. A  8. A
4. D  9. A
5. A  10. B
Section 3

Marketing and Leasing Office Space

Marketing office space requires a systematic and continuing program to attract prospective occupants, analyze their space needs and show them units suited to their budgets and space requirements. Although there are several ways to merchandise office space, a thorough knowledge of the market area and the specific property is essential to each. Several points can be raised to convince prospects to relocate: a substantial price advantage, accessibility, environment, labor market, increased efficiency, prestige and economy in a new location.

The most commonly used methods of attracting prospective tenants to office buildings are signs, brochures, display ads, direct mail, publicity and public relations efforts, referrals, canvassing, leasing agents and rental centers.

• **Signs** - During construction, with interest high, signs should be strategically placed to draw attention to the availability of space.

• **Brochures** - Colorful, attractive brochures are useful in describing a building's features and creating interest in space. In its simplest form, a brochure should identify and locate the property; identify the leasing agent; and provide renderings of the building and a typical floor plan.

• **Advertisements** - Well-placed institutional display ads can be effective. Such ads address themselves to the decision-makers and their influence groups within prospective tenant organizations, emphasizing the prestige and value of the space. Display advertisements in well-selected trade publications reach a target audience over a wide metropolitan or regional area.

• **Direct Mail** - The quickest way to lease a large new building is to generate movement within the current market. This can be accomplished by addressing the latent portion of the market. Firms who are not actively looking for new offices are not generally influenced by signs, ads or leasing agents, but may be responsive to direct mail pieces that offer a better value or location than their present office space.

• **Public Relations** - A well-executed public relations program can be a cost effective supplement to advertising, direct mail and other marketing techniques. News releases should be used to relay any significant event to as many media as possible. The signing of a major tenant and the topping off of a new building provide excellent opportunities to promote the building and the leasing firm.

• **Referrals** - Goodwill is a powerful leasing tool. Current tenants are a good source of prospects.
• **Canvassing** - Canvassing is probably the best prospecting method for leasing office space and is most productive when the list of prospects has been qualified to some extent. Canvassing efforts should begin in areas closest to the subject property and progress outward in concentric circles around the property.

• **Leasing Agents** - Contact all the commercial brokerage firms in the area and provide information regarding the office building.

• **Rental Centers** - Rental centers allow for private discussions with prospective tenants and provides showing availability immediately.

• **Internet** – When you Google “office space my town” (enter your town) you will find many websites on which you can list your available office space for rent. Those who are directed to your project should find your website that has been professionally developed. Remember, the first impression of your project is typically the most important.

NOTE: Agents should be careful when advertising rental space to not give away confidential information about owners, existing tenants, and future tenants.

Warning: Many agents who would never give away confidential information about their clients in the normal course of events often do so on the social websites, to which they belong.

For example, agent Susie is negotiating to list $250,000 square feet of office space. She mentions this on a social networking site and gives out certain information. Other people and agents are able to dis-cipher what property to which she is referring. Those brokers may now start calling the owner about listing the property for lease.

The company that is leaving may begin receiving unwanted calls about leasing the space. Other people in the community and local newspapers may start to question if the company is moving outside the area. People working for the company may question whether or not they will have a job.

The same type of concerns could be voiced if the agent representing the new tenants moving into the area. Be careful what information you put on the internet!

**Qualifying the Prospective Tenant**

Advertising and promotion provoke inquiries about space, but the real marketing of the property is done by personal contact with the prospect at the office building. Spatial requirements should be one of the first areas of qualification. Preliminary space planning convinces prospective tenants that the office building cares about their requirements and is rendering professional service. It also shows the prospective tenant on paper where the space will be situated in the building and how the people and furniture will fit into the space.
In negotiating a lease, the lessor and his/her agent should have a written policy manual of the factors they consider in leasing their property. These factors should be applied for every possible tenant to avoid any appearance of discrimination. For example, if it is company policy to check the credit rating of potential tenants, then the credit rating of all potential tenants, without regard to any of the personal characteristics as required by law should be checked. Such characteristics include, but are not limited to: race, sex (gender), religion, etc.

The starting point for assessing the prospects' needs is an understanding of the nature of the prospect's business, the types of staff positions it demands, the number of people in each position and the tasks that each performs.

From this information, the following different categories of space usage will have been identified:

- **Single Office Space** - This refers to enclosed or semi enclosed areas serving a single occupant, including a circulation area to provide access to the office. Unit office spaces can vary in size from 100 to 345 square feet.

- **Multi-Personnel Areas** - These are open or closed work spaces for more than one person. The standard allowances for closed areas range from 55 to 90 square feet per person. Open area requirements can range from approximately 45 square feet each for 15 or more workers to 80 square feet per person for 6 employees or fewer.

- **Special Facilities** - These are designed to accommodate any special equipment used by workers in the course of their jobs.

- **Miscellaneous Areas** - The two most universal and essential spaces classified as miscellaneous are filing space and traffic flow allowances. Corridors and other interior circulation requirements are often estimated at 15% of the total office area, whereas 5% is usually added for filing space.

Additional areas for prospect qualifications include:

- Motives for Moving
- Rental Budget
- Parking and Transportation Needs
- Preferences for Amenities and Alterations
- Projected Moving Date
- Special Lease Clauses Needed
- Authority to Make Decisions on Behalf of the Company
Negotiations and the Lease

The standard office lease is a written contract between the tenant, the building manager or owner that defines the rights and duties of each party over a specified period of time. Leases over one year in duration must be in writing pursuant to the Statute of Frauds. The lease can be a gross lease or a net lease.

Gross Lease

Under a gross lease, the tenant pays a fixed rental amount and the owner pays all other expenses for the property. Utility charges are generally paid by the tenant but may be negotiated between the parties.

Note: in some areas a gross commercial lease is one in which the tenant pays some or all of the property charges, as in a net lease, but the charges are not listed separately; therefore, the tenant writes only one check to the landlord, which includes rent and the tenant’s share of expenses.

Net Lease

Under a net lease, the tenant pays some or all of the expenses of the property in addition to the stated rent. The triple net leases usually run for longer terms. A strictly net lease obligates the tenant to pay utilities, real estate taxes and other special assessments levied against the property in addition to the rent. The net - net lease generally requires the tenant to pay all items included under the net lease terms plus the insurance premiums agreed on in the contract. Agreed on items of repair and maintenance are added to the net - net payments to determine the tenant's total obligations under a net - net - net or triple net lease.

Standard clauses included in the lease include:

• Name and Signatures of Both Parties

• Description of the Property

• Term of the Lease

• Consideration or Amount of Rent

• Time and Method of Payment

• Use of Premises

• Rights and Obligations of Both Parties
Additional clauses which are open for negotiation include:

- Escalation Assignment and Subletting
- Recapture Services by Landlord
- Possession
- Remodeling and Building Standard
- Options

The purpose of the escalation or pass through clause is to cover the unavoidable annual increases in real estate taxes and operating expenses. An alternative method of escalation is the use of an expense stop. Under this method, the landlord is obligated to pay expenses up to a certain dollar figure per square foot per year; the excess is prorated to tenants.

The assignment and subletting clause protects the tenant from rapid expansion or collapse in business. The tenant's liability in no way decreases when the space is assigned or sublet, but the tenant may vacate the premises without the major financial loss. Many leases provide that a tenant may sublet or assign the premises only after obtaining the landlord's written approval and giving sufficient notice.

The recapture clause gives the landlord the right to recover any space that the tenant is unable to occupy or sublease. The landlord can then release the space to another tenant sometimes at a higher rent.

The services by landlord provision identifies the landlord's obligation to provide utility services. Some leases will specify that the landlord supply HVAC during business hours only.

Possession clauses provide for delay either by the landlord for failure to deliver possession on the date stated or by the tenant for not providing the landlord with the firm's space utilization plans in a timely manner.

Building standard clauses identify the specific combination of amenities and alterations that the owner is willing to make without charge for the incoming tenant. Tenants requiring alterations or additions beyond those itemized on the standards list must contract and pay for these services independently after receiving approval from the landlord.

In addition to negotiating the business terms of the lease, tenants may attempt to obtain options. The size of the tenant and the length of the lease term also have an impact on the negotiation of options. The following are commonly sought options:
• **Option to Expand** - To permit orderly company growth, a tenant may want to be assured that additional space can be leased sometime in the future. An option to expand grants the tenant the right to lease a certain amount of space at a certain time.

• **Option to Renew** - An option to renew gives the tenant the right to renew the lease at the expiration of its original term for an additional period.

• **Option to Cancel** - Certain types of tenants may request an option to cancel the lease before its expiration.

In addition, new leases should allocate responsibility for compliance with **Americans with Disabilities Act**. ADA requires that all places of public accommodation remove barriers that prevent access by the disabled in existing buildings when to do so is readily achievable. Both the landlord and tenant should negotiate a clear understanding of ADA compliance obligations. The U. S. Department of Justice recommends that the parties include an indemnification clause to protect either party from costs resulting from the non-compliance of the other.
Section 3 - Review Quiz

1. Marketing office space requires a systematic program to attract prospective tenants.
   a. True
   b. False

2. The most commonly used methods of attracting prospective tenants to office buildings include:
   a. Signs
   b. Brochures
   c. Direct mail
   d. All of the above

3. Canvassing is probably the best prospecting method for leasing office space.
   a. True
   b. False

4. Preliminary space planning convinces prospective tenants that the office building cares about their requirements.
   a. True
   b. False

5. Miscellaneous areas are:
   a. Filing space
   b. Traffic allowances
   c. Both a & b
   d. Neither a nor b
6. Areas for prospect qualifications include:
   a. Motives for moving
   b. Rental budget
   c. Projected moving date
   d. All of the above

7. The standard office lease is between the lessor and the lessee.
   a. True
   b. False

8. The purpose of the pass through clause is to cover annual increases in expenses.
   a. True
   b. False

9. An expense stop is where the landlord is obligated to pay expenses up to a certain dollar figure per square foot per year.
   a. True
   b. False

10. An option to renew gives the landlord the right to renew the lease at its expiration.
    a. True
    b. False

Answer Key

1. A  6. D
2. D  7. A
3. A  8. A
4. A  9. A
Section 4

Maintenance & Life Safety Issues

Once the negotiating process has been successfully completed and the new tenant has signed the lease and taken possession of the premises, the office building property manager should focus on maintaining good relations with the tenant. Two elements in preventing tenant turnover deal with maintaining the office building and life safety issues.

Maintenance

An almost infinite number of times and areas within an office building require consideration when a comprehensive maintenance program is established. Regular inspections, adjustments and lubrications must be scheduled so that all of the building's vital systems - HVAC, plumbing, electrical, elevators - continue to operate smoothly.

Maintenance unique to the office building requiring special consideration include:

- Janitorial
- Window cleaning
- Lamp maintenance

Janitorial maintenance is especially important when it is realized that it is one of the chief sources of tenant complaints and has a great effect on tenant satisfaction. Everyone wants to be in a clean building and tenants are apt to remain in older properties that have exceptional janitorial service. Window cleaning may fall under janitorial maintenance or can be contracted for separately. Tenants generally expect that burned out light bulbs and fluorescent tubes will be replaced in a timely fashion.

Energy conservation is also a form of maintenance. Much energy can be conserved by using computerized systems that turn on and off the various pieces of equipment in the building. Computers are very much in vogue in new, larger office buildings that have complex systems of monitors, detectors and recording data capabilities. The computer can analyze when certain functions should be performed in order to provide appropriate preventive maintenance and print out exactly what must be done at various time intervals.

Life Safety

Office buildings present unique problems because of the high concentrations of occupants above ground level. Emergency procedures must be prepared for earthquakes, fires, tornadoes, power failures, water line breaks, explosions, bomb threats and serious injuries to persons in the building. All these procedures- and available security personnel must be coordinated with the building's electrical, mechanical, communication and control equipment.
Section 4 - Review Quiz

1. Once the lease is signed, the building manager should focus on maintaining good tenant relations.
   a. True
   b. False

2. Regular inspections should be scheduled so that all of the building’s vital systems operate smoothly.
   a. True
   b. False

3. Energy conservation is a form of maintenance.
   a. True
   b. False

4. Office buildings present unique problems because of the high concentration of occupants above ground level.
   a. True
   b. False

5. Emergency procedures must be prepared in the event of earthquakes, bomb threats, power failures, and fires.
   a. True
   b. False

Answer Key

1. A
2. A
3. A
4. A
5. A
Section 5

Insurance

Property Insurance

Office building insurance includes property loss and liability loss. Property loss is covered under a fire insurance policy. A standard fire insurance policy is the foundation on which a policy providing comprehensive coverage is written. Various forms and endorsements are added to it to include different kinds of property and to extend the basic coverage. Common endorsements include:

- **Extended Coverage Endorsement** - Insures against direct loss or damage from windstorm, hail, explosion, riot, riot attending a strike, civil disturbance, aircraft, vehicles, and smoke.

- **Vandalism and Malicious Mischief Endorsement** - Covers losses caused intentionally by vandals.

- **Building and Contents Form** - Covers the office lobby furnishings or other common area furnishings.

- **Replacement Cost Endorsement** - Substitutes replacement cost for actual cash value, thus eliminating any deduction for depreciation.

- **Specific and Blanket Forms** - Blanket policy occurs when a single contract is written for more than location; specific policy applies to a single item or kind of property in one location. Blanket insurance covering both real and personal property has become necessary for commercial properties, like office buildings, since it protects the owner against any omissions in coverage.

- **Consequential Loss Forms** - Consist of physical damage, loss of earnings, or additional expenses. The most common consequential losses are the loss of income that results when the business premises are damaged by fire; cost of researching and reproducing valuable papers files or records destroyed by fire; or the extra expense of renewing operations so that business can continue after a direct loss.

In addition to losses covered by the standard fire insurance policy and the extended coverage endorsement, there are several miscellaneous property coverages that provide needed protection under certain conditions. These include flood, earthquake, sprinkler leakage, water damage, glass, and boiler and machinery insurance.

Liability Insurance
Office buildings usually are insured under an **Owners, Landlords, and Tenants (OLT) Policy Form**. With it, the insurance company insures liability arising from the ownership, maintenance, or use of the insured premises (including elevators and escalators) and all operations necessary and incidental to it.

For more information on office building development and management, contact the **Building Owners and Managers Association (BOMA)**.
Section 5 - Review Quiz

1. Office building insurance includes property loss and liability loss.
   a. True
   b. False

2. A standard fire insurance policy is the foundation on which a policy providing comprehensive coverage is written.
   a. True
   b. False

3. Common endorsements include which of the following:
   a. Extended coverage
   b. Replacement cost
   c. Consequential loss
   d. All of the above

4. Office buildings usually are insured under an Owners, Landlords, and Tenants policy form.
   a. True
   b. False

5. Specific and blanket form policies are identical.
   a. True
   b. False

Answer Key
1. A
2. A
3. D
4. A
5. B