

## So,...how much is this space?

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When an office space user thinks about moving to retail space and asks their friendly neighborhood retail commercial real estate broker to ask how much retail space is, the office space user walks away with a quizzical look – I'm sure some of you know exactly what I mean:

**Customer:** So,... how much is this space?

**Broker:** (cell phone rings and he answers it while looking at the customer): Uh, that's \$12.50 triple net, you do the HVAC, we do the water, CAM is \$1.46 and includes garbage. (to the phone) Yeah, Wally, I gotta go, lets do a deal! (back to client) TIs are negotiable, and ... those are useable feet.

**Customer:** How much is that a month?

**Broker:** \$1,461.67 before triple nets.

This slice of real life passes for communication in the real estate community. Like most communication, it leaves more unsaid than said. Let's start over from the beginning.

All space has a *Base Rate* quoted which represents the landlord's cost to buy land, and the improvements. This is the \$12.50/SF-Yr. That pays for the cost of building your four walls and associated grounds. In a retail space, you are given the number of square feet within your walls, roughly the number of square feet of carpet you could lay in the space. In an office building, the square feet given is that PLUS a *common area factor* for common restrooms, halls, elevators stairways and mechanical rooms. This *common area factor* is often 10% -25% more than the number of feet within your walls.

The landlord can't predict the cost of electricity, snowfall removal, tornado insurance, or tax rates - but these are associated costs with the space. So the landlord pays those for the entire complex and passes them through to the tenant on a per square foot basis, usually by charging the estimated costs for those items monthly and reconciling them yearly. I like to call these costs *CTI* (Common area maintenance, Tax and Insurance). Some brokers call these *CAM* (common area maintenance) charges, but of course they include taxes and insurance also. They are also called triple net charges, *NNN* charges, by brokers and many other choice terms by the tenants. If these charges are included in the quoted rate, it is sometimes called a *Gross Lease Rate*, although you have to be careful to itemize just how "*Gross*" the rate is.

In most retail leases the tenant directly pays:

- ♣ electricity,
- ♣ gas,
- ♣ heating,
- ♣ ventilation, air conditioning maintenance and repair (collectively known as HVAC),

- ♣ plumbing maintenance and repair,
- ♣ light fixture maintenance,
- ♣ glass breakage
- ♣ janitorial,
- ♣ garbage disposal and
- ♣ security

within the walls of the space.

Most office space leases are *Full Service Leases* and include all these costs as a single quote, although often these expenses are *stopped* in the lease so that increases are passed along to the tenant. Today, as a rule of thumb, the difference between a *Base Rate* in shopping centers and a *Full Service Rate* in office buildings is \$3.50 - \$4.50/sf-Yr.

Now, let's improve on the previous "conversation":

**Broker:** Let me turn my cell phone off so it won't disturb us. Do you have any questions about this space?

**Customer:** So,...how much is this space?

**Broker:** The cost to lease this space from the landlord is \$12.50 per square foot per year. The landlord is also passing through variable costs for common area maintenance (snow removal, parking lot lighting and maintenance, landscape maintenance, etc), taxes, and structural and fire insurance. This is commonly called CAM, triple net charges or CTI and is another ESTIMATED \$1.46 per square foot per year. I have this chart for you showing the costs for the space payable to the Landlord:

Square Footage = 1,256 sf

Costs	Per SF Per Year	Per Year	Per Month
Base Rent	\$12.50/ SF-Yr.	\$ 15,700 per year	Base Rent \$ 1,308.33 Per Month
CTI	\$1.46/SF-Yr.	\$ 1,833.76 per year	CTI \$ 152.81 Per Month
Total Landlord Costs	\$13.96/SF-Yr.	\$ 17,533.76 per year total	\$ 1,461.14 Per month

**Customer:** Are there any more hidden costs, any other costs I will have to pay?

**Broker:** You will have to purchase your own insurance for your contents. You will also have to pay your own expenses for electricity, gas, heating, ventilating, air conditioning (collectively known as HVAC), plumbing, light fixture maintenance, glass breakage, janitorial, and security. This landlord pays for water as part of the base rent. Garbage disposal is included as part of the CTI charges.

**Customer:** I'm paying \$16.75 at Suburbia Office Complex. What can I expect to pay here at the shopping center after all expenses?

**Broker:** Well the *Base Rate* here is \$12.50/SF-Yr. and the cost to pay for all the other expenses runs about \$4.25/SF-Yr. in this area of town, so you will be paying about \$16.75/SF-Yr. on an equivalent basis. Where you are now, you have 1,507 sf rentable, with a 20% common area factor, so you actually have 1,256 sf in your office. Here you have 1,256 sf within your walls, but the bathrooms are also within your own space.

**Customer:** So, it's about the same at the end of the day?

**Broker:** Right. It just depends on whether you want the walk up convenience and the customer visibility of a shopping center. If your business has a lot of appointments like insurance, lawyers or doctors, sometimes it makes a lot of sense to be in a shopping center. If your business needs to control it's environment closely, or keep it concentrated and secure, multi-story office buildings are preferable.

**Customer:** Will the landlord fix up the space for me?

**Broker:** Most landlords will finish the space out to a "vanilla box", meaning:

- ♣ a simple four walls with
- ♣ bathrooms to code,
- ♣ heating, ventilating and air conditioning (HVAC),
- ♣ drop ceiling,
- ♣ lighting,
- ♣ floor ready for carpet and
- ♣ walls ready for paint.

If a tenant wants additional partitions, plumbing and improvements (tenant improvements or *TIs*), the landlord will pay for some depending on the length of your lease, the probable value of those improvements to a future tenant and the tenant's creditworthiness. *TIs* are negotiable. Decide how you want to finish the space and we will get it estimated and see what the landlord will do.