

COLUMBUS BUSINESS FIRST

Friday, March 6, 2009

To a broker it's Class A, to the tenant it's just snazzy

Business First of Columbus - by [Carrie Ghose](#)

The accounting firm wanted a “showcase on a budget.” The venture capitalists were looking for “funky.”

It didn't really register that one office was labeled Class A and the other Class B. The tenants found what they wanted.

Letter or no, businesses see a difference in both quality and cost in different classes of office space – and many throughout Central Ohio are taking advantage of the recession to move up. Big Four accounting firm PricewaterhouseCoopers LLP moved to Huntington Center last year from Chase Tower, an older Class B building a few blocks away.

“Tenants could get into A buildings at what feel like B rates,” said Mike Simpson, agent with **NAI Ohio Equities LLC**. “The loser in that is the Class C property, because there's no one left to move up.”

The commercial real estate industry stratifies office buildings from premium Class A to the shabbier C, but the lines of demarcation are muddy and frequently argued. Listing services, real estate agencies and developers each have their own systems. Agents use class to track market movement and to search and sometimes advertise properties, but classifications are all but invisible to tenants. “It's more an industry term than a consumer term,” Simpson said. Clients often arrive with a list of buildings they want to see, usually in the same class whether they know it or not, said Todd Greiner, first vice president of CB Richard Ellis Group Inc. in Columbus.

A grade has little effect on how fast a building fills or how much a landlord can charge. It seems like the egg lays the chicken: Rent is one criterion for assigning class. But everything relates: Rents equal what tenants are willing to pay in a given market for features and location, which are fellow determinants of class.

These days, they're willing to pay less.

“There's no better time than right now to negotiate a better deal as a tenant and lock in for a long term,” said Greg Weber, assistant vice president of developer Daimler Group Inc.

Meanwhile, landlords are asking for longer terms and more financial records or other guarantees from lessees. They'll take a lower profit over vacancy but don't want tenants to evaporate mid-lease.

“The landlord wants to know who is really on the lease,” said Wayne Harer, executive vice president of Continental Realty Ltd. “Is it some shell company?”

As tenants trade up, agents said, many have headed to the suburbs in search of free parking and tax abatements that reduce total costs compared with downtown, where base rents are lower.

Last year, the big winners were the northeast and northwest regions, including New Albany and Dublin. Both greatly increased occupancy in Class A space and had some gains in B as well, according to data from Central Ohio Commercial Information Exchange, the local arm of Xceligent Inc.

Capitol Square and other downtown neighborhoods lost Class A tenants over the year, Xceligent data show. The only downtown region to rent out more Class A space over the year was the Arena District, which benefited from new construction.

And those Class C tenants moving up? Apparently many headed to Capitol Square, which gained occupancy in Class B space compared with 2007.

Rival listing service CoStar Group Inc. showed similar migration in its slightly different set of tracked buildings. Unlike Xceligent, CoStar tracks Class C, which it said lost tenants for the year.

Project success, not excess

In the space of a year, accounting firm Cohen & Co. moved into two hot spots.

The Cleveland firm opened its first Columbus office in temporary Arena District space last January.

“If we were going to be downtown, the place to be was going to be the Arena District,” said Doug Mayr, partner in charge of the office who had spent two decades in different downtown firms.

Cohen & Co. was ready to sign a 10-year lease for 3,500 square feet last June. But many of the dozen new employees lived in the northern suburbs, and new clients were suburban as well.

Then gas prices skyrocketed, real estate markets softened and the firm had some concerns about the lease negotiations. Mayr decided to shop around.

Managers toured buildings downtown and along the Interstate 270 outerbelt, where shorter commutes would reduce the



firm's environmental impact. They weren't aware of building classes until they started seeing how much work some offices would take.

In Dublin's Metro Center, they found a Class A office with an open floor plan, wireless Internet access, and a sweeping bay window for a conference room – plus free parking that resulted in 40 percent savings over the Arena District. Cohen finished its move in early February.

"It's a showcase on a budget," said Mayr, adding that makes good business sense if he's going to advise clients to cut costs. "We can make this feel like downtown without paying downtown prices."

Tax breaks enhance deals

Building owners also benefit from the migration.

It's harder to trade up this year simply because of the dearth of construction, Greiner said. Daimler is the only developer building sizable Class A projects in the recession, Simpson said.

The company is finishing its Westar development in Westerville and building at Water's Edge in New Albany, both financed with other partners. Tax abatements make costs competitive with Class B buildings in those suburbs, Weber said.

Developer Casto built 60,000 square feet of Class A space in the second through fourth floors of its Broad and High project, linking new construction with floors in a rehabbed historic building. A 10-year tax abatement also lowers costs in those offices, one-third of which are leased.

"We've lowered the (rent) price once; we may have to lower the price again," said Todd Kemmerer, principal with Capitol Equities. "It's because of (other) A-class buildings moving down to become more competitive."

Migration also helped fill a Class B building at Third and Town streets over the past two years. Just 3,000 square feet of 60,000 are left in the former Galbreath Building, Kemmerer said.

Luxury out of concrete

On the fourth floor of One Marconi Place in the Arena District, the elevator doors open not into a hallway but straight into NCT Ventures LLC. The private investment and venture capital firm moved in July from a narrow three-story building overlooking Goodale Park to one of the few Class B buildings in the Arena District, with rents averaging \$10 a foot less than newly built neighbors. "You could not ask me what's Class A and Class B," said partner Bill Frank. "We liked the location." The partners wanted the neighborhood's mix of entertainment and activities along with proximity to the Short North and downtown. They also looked in those neighborhoods, seeing everything from too pristine to too fixer-upper.

Marconi was ready for move-in, and allowed them to contrast modern furnishings with oil-stained concrete floors and exposed beams.

A giant wagon wheel, reclaimed farm cart, wooden "barn doors" on offices, family-built steel and wood tables and some Jetsons seating give an agro-industrial feel with plenty of spots for spontaneous creative meetings.

The effect gives investors confidence in the company's stability and entrepreneurs comfort with its culture and style, Frank said.

"We were asking for funky, unusual space, which is almost like saying B that could be A," managing partner Rich Langdale said. "A lot of the brand new stuff, it just feels too polished."

614-220-5458 | cghose@bizjournals.com

All contents of this site © American City Business Journals Inc. All rights reserved.