



Market Analysis for Commercial Investment Real Estate

10

Case Study 2: Office Properties

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Case Study 2:

Office Properties

Case Study Goal

The goal of the office case study is to apply the CCIM Strategic Analysis Model to analyze an existing office market to locate the most suitable submarket area and then to select the property that best meets the specific needs of a client seeking a new office facility.

Case Study Objectives

- Analyze the current phase of the Dallas office market cycle, the Economic Base Multiplier (EBM) for the Dallas metropolitan area, and the results of the Shift-Share Analysis.
- Use STDB thematic mapping to conduct a smart map search and locate the census tract which contains the highest concentration of the targeted employee demographic criteria.
- Determine which office submarket the selected census tract is located.
- Determine the current total office inventory, total vacant inventory, space under construction, and the stabilized vacancy rate for the selected office submarket.
- Conduct an analysis of the current market vacancy and absorption rates and perform an office gap analysis to determine estimated changes to the future market conditions over the next 12-months.
- Conduct a competitive analysis to determine which available property best matches the targeted building selection criteria.
- Calculate the estimated average annual effective rent over the recommended lease term for the selected property.

Case Study 2: Office Properties

Client Background

Your client, Horizon Finance, is a growing financial services company located in Dallas, Texas. Their current lease is expiring soon and they have outgrown their current facilities. They have hired your real estate services firm to assist them with their future facility needs. They need to relocate into a suitable office space and will commit to a new 5-year lease term, but they are willing to consider a longer lease term if the market conditions warrant.

Client Situation

Horizon has outgrown their existing office space and their current lease is expiring within the next 12-months. Horizon wants to be established in a new office prior to their lease expiration and your objective is to locate a submarket area and property that best matches their targeted criteria.

Demographic Criteria

The ideal office submarket area will have the highest concentration of demographics that match Horizon's ideal new hires that consist of:

- 25 to 34-year olds
- Who earn between \$50 to \$75K per year
- With a bachelor's degree or higher education level
- That work in the finance & insurance industries

Building Criteria

Within the selected office submarket area, the ideal office property will be a higher-quality, efficient multi-tenant office property that consists of the following characteristics:

- 30,000 RSF of contiguous office space
- Minimum parking ratio of 4.0 per 1000 RSF
- Class "A" quality
- Built since 2000
- Favorable highway access & visibility
- Five-minute walking distance to multiple restaurant options

- Efficient building design and lower overall occupancy costs are an important consideration

Lease Criteria

Upon selecting the best office building option, Horizon has given you the following parameters to negotiate a new office lease:

- Minimum 5-year lease term with options to extend, however, Horizon will consider up to a 10-year lease term with early termination options if forecasted market conditions indicate this is the best strategy
- Starting base rental rate, annual rental rate escalations, and any free rent concessions based upon current market competitive conditions
- Free parking
- Base year operating expense stop based upon current market expenses
- Assume that operating expenses will escalate at 2.5% annually, and such increases above the expense stop will pass through to Horizon
- All tenant improvement costs and moving expenses are to be paid by the prospective new Landlord

Scope of Analysis

The primary strategy for determining the most suitable office space for Horizon Finance is to first locate the specific census tract that contains the highest number of their targeted employee demographics. Then, select the available office property that best matches their facility needs.

You will present your recommendation to the client based upon the cumulative results of the CCIM Strategic Analysis process.

Location and Site Analysis

Task 10-1: Market Cycle, Economic Base Analysis, and Shift-Share Analysis



Objective

Analyze the current phase of the Dallas office market cycle, the Economic Base Multiplier (EBM) for the Dallas metropolitan area, and the results of the Shift-Share Analysis.

Rationale

The collective information will be used to determine current market cycle positioning; basic employment sectors; future employment growth forecasts; and employment sector competitive advantages.

Resources

Refer to the prior analysis conducted for the Dallas market area in Case Study

Steps

1. Determine the current phase of the Dallas office market cycle and how this would impact leasing strategy.
2. Calculate the EBM for the Dallas area. This information will be used later in Task 10-5 to conduct the office gap analysis.
3. Determine if the finance and insurance employment sectors have consistently had a positive regional shift over the past:
 - 5 years
 - 10 years
 - 20 years

Note Your Findings

2. In what office market cycle is Dallas currently in? -

3. What is the current EBM for the Collin County, TX?

(This information will be used in Task 10-5)

4. Have the finance and insurance employment sectors consistently had a positive regional shift over the past:

- ☐ 5 years

- ☐ 10 years

- ☐ 20 years

5. What do the shift-share results indicate about the competitive advantage for creating finance and insurance jobs in the Dallas area over time?

6. How does the 10-year employment growth rate in DFW compare to the overall U.S.?

End of task

Task 10-2: Smart Map Search

Objective

Use STDB thematic mapping to conduct a smart map search and locate the census tract which contains the highest concentration of the targeted employee demographic criteria.

Rationale

The STDB smart map search tool provides for a sophisticated method of searching for multiple demographic variables to find the most desirable location(s).

Resources

STDB website <https://www.stdb.com/>

Steps

1. Link to the STDB website <https://www.stdb.com/>.
2. After log-in, open Business Analyst to load map and then zoom into the Dallas/Fort Worth metropolitan area (Census Tract zoom level).
3. Next click “Create Maps” / “Smart Map Search” / “Get Started” / “Browse All Variables” / “Income” / “Create your own “Income Variable”” / “Advanced Custom Variable”
4. You are now ready to assemble the client’s demographic criteria by dragging the variables to the selection area (make sure to use the appropriate operator for addition between the variables).
 - “Income” / “Income by Age” / “Household Income \$50,000-\$74,999 and Householder Age 25-34”
 - “Education / Bachelor’s Degree”
 - “Jobs” / “Industry” / “Finance/Insurance”
5. After selecting “Add” and then “Next”, move the left slider filter tool until only one census tract appears on the map.

Note Your Findings

1. Which census tract has the highest concentration of combined demographics that match Horizon's ideal new hires?

End of task

Task 10-3: Office Submarket Location

Objective

Determine which office submarket the selected census tract from Task 10-2 is located.

Rationale

After conducting the smart map search we need to determine which office submarket the targeted census tract is located in and to obtain office demand data

Resources

- STDB website <https://www.stdb.com/>

Steps

- Using the Smart Map Search conducted in Task 10-2, determine the submarket area by clicking “Add Data” / “Web Maps and Layers” / “ArcGIS” / search for “REIS Dallas Office Submarkets” / select “Add”.
- Using the Clear Map tool on the right-hand side of the screen, select “Smart map search results”, and click “Clear”.
- Click inside the selected submarket map and select “Reports” and then use the dropdown menu to select:
 - “Business Summary” (in Excel) / “Run Report” / “Open Report”
 - “Executive Summary” (in Excel) / “Run Report” / “Open Report”
- Once downloaded, save the worksheets on your computer for later use in Task 10-5.

Note your findings

- Which office submarket contains the census tract with the highest concentration of combined demographics from Task 10-2?
-

- On the Business Summary worksheet by NAICS code (Page 2, Line 93), how many total employees work in the targeted submarket in the Finance & Insurance sector?
-

End of task



Task 10-4: REIS Submarket Analysis

Objective

Determine the current total office inventory, total vacant inventory, space under construction, and the stabilized vacancy rate using REIS data.

Rationale

The office submarket supply data will be used later in Task 10-5 to conduct the office gap analysis.

Resources

REIS Submarket Trend Futures report

Steps

1. Determine the current total “Inventory SF/Units” and current total “Vacant Stock” from the Submarket Trend Futures Report – Submarket Trend Data table.
2. Determine the 2-year forecasted “Completions” from the Submarket Trend Futures Report – Submarket Forecast Data table.
3. Determine the stabilized vacancy rate range by observing changes in the direction of “Asking Rent” and the corresponding “Vacancy Rate” from the Submarket Trend Futures Report – Submarket Trend Data table.

Note your findings

1. What is the current total office inventory?

2. What is the total vacant inventory?

4. What is the space under construction?

5. What is the stabilized vacancy?

End of task

Task 10-5: CCIM Office Gap Analysis

Objective

Conduct an analysis of the current market vacancy and absorption rates and perform an office gap analysis to determine estimated changes to the future market conditions over the next 12-months.

Rationale

The office gap analysis is used to analyze current market conditions and to forecast changes in demand and supply that impact absorption rates, vacancy rates and rental rate trends.

Resources

- CCIM Office Gap Analysis worksheet
- Worksheets from Task 10-3

Steps

1. Using the Office Gap Analysis worksheet input tab, fill in the data for the targeted office submarket as follows:
 - ▣ Line 9: Current Total Supply (RSF) from Task 10-4, step 1.
 - ▣ Line 10: Current Overall Vacant Supply (RSF) from Task 10-4, step 1.
 - ▣ Line 11: New Supply in Construction Pipeline (RSF) from Task 10-4, step 2.
 - ▣ Line 12: Stabilized Vacancy Rate % from Task 10-4, step 3.
 - ▣ Line 16: Economic Base Multiplier from Task 10-1, step 2.
2. In the Business Summary tab, copy and paste the entire Business Summary worksheet from Task 10-3.
3. In the Executive Summary tab, copy and paste the entire Executive Summary worksheet from Task 10-3.

Note Your Findings

1. What is the current occupancy rate (Gap Analysis Tab - Line 11)

2. What is the forecast occupancy rate? (Gap Analysis Tab - Line 19)

3. What is the forecast annual absorption rate (Gap Analysis Tab - Line 23)

4. What is the forecast stabilization date? (Gap Analysis Tab - Line - 25)

5. Based upon your analysis of this submarket, what is the anticipated rental rate growth over the foreseeable future and how does this impact the recommended lease terms for Horizon?

End of task



Task 10-6: Property Match

Objective

Conduct a competitive analysis to determine which available property best matches the targeted building selection criteria.

Rationale

Select the most suitable property based upon the client's building selection criteria.

Resources

- CCIM Competitive Analysis worksheet
- REIS Rent Comps report
- Other online property search data

Steps

1. Weight the location criteria variables in the CCIM Competitive Analysis worksheet ("Location Analysis" tab, column C).
2. Weight the building criteria variables in the CCIM Competitive Analysis worksheet ("Building Analysis" tab, column C).
3. Using data from the REIS Submarket Rent Comps report and other online search data, score each of the comparable properties listed in the REIS Rent Comps report.
4. Select the property with the highest combined analysis rating in the CCIM Competitive analysis worksheet ("Summary Analysis" tab).

Note your findings

1. What property has the highest analysis rating?

-
2. What additional resources did you use to make the recommended office property for Horizon?
-

End of task

Financial Analysis



Task 10-7: Occupancy Cost Analysis

Objective

Calculate the estimated average annual effective rent over the recommended lease term for the selected property.

Rationale

Horizon needs to budget their expected occupancy costs for the new office location.

Resources

- CCIM Lease Financial Analysis worksheet
- REIS Rent Comps report

Steps

1. Using the Lease Financial Analysis worksheet (Lease Input tab), fill in the data for the targeted lease criteria as follows:
 - Line 1: Lease Term = 5-years, however, Horizon will consider up to a 10-year lease term with early termination options if forecasted market conditions indicate this is the best strategy.
 - Line 2: Rentable Square Feet = 30,000.
 - Line 3: Base Rent per SF (current asking rent listed at the top of the recommended REIS Rent Comps property summary).
 - Line 5: Base Rent Concession (Number of Months) = REIS Rent Comps report Effective Rent Paid by Tenant, Free Rent (Months/Lease).
 - Line 7: Real Estate Taxes/SF = REIS Rent Comps report.
 - Line 8: Real Estate Tax Stop/SF = same amount as Line 7.

(continued next page)

- ▣ Line 9: Operating Expenses/SF = REIS Rent Comps report.
- ▣ Line 10: Operating Expense Stop/SF = same amount as Line 9.
- ▣ Line 20: Base Rent Escalation = REIS Rent Comps report. Year Asking Rent Growth Rate Percentage for Comp Group.
- ▣ Line 22: Real Estate Tax Escalation = 2.5 percent.
- ▣ Line 24: Operating Expenses Escalation = 2.5 percent.

2. Calculate the “Before Tax Average Annual Effective Rent” (Line 26 of the Lease Financial Analysis worksheet (Occupancy Cost tab).

Note your findings

1. What lease term was used in the analysis (Lease Financial Analysis worksheet Lease Input tab Line 1)?

2. What is the Average Annual Effective Rent amount (Lease Financial Analysis worksheet Occupancy Costs tab Line 26)?

End of task



Task 10-8: Client Recommendation

Objective

Aggregate your analyses findings into a brief presentation for your client demonstrating your recommendations.

1. What office submarket best meets your client's demographic criteria? How did you make this determination?

2. Which property best matches your client's building criteria? What information did you use to make this recommendation?

3. What is your client's estimated average annual effective rent for the selected property?

4. What additional lease terms and negotiating strategy would you recommend to your client before entering into a lease for the selected property?

End of task