



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 recommended property.

NOTES

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 graduate / professional degree 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:

- Minimum of 25,000 RSF of contiguous office space on a single floor
- Minimum parking ratio of 3.5 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
- Minimum 25,000 RSF on a full floor as a single tenant (not shared with other tenants)
- Starting base rental rate, rental rate escalations, rent concessions, and operating expenses based upon current market competitive conditions
- Free parking
- 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

Pre-Case Study

Steps

1. Record the EBM for the Dallas metro area. This information will be used later in Task 10-5 to conduct the office gap analysis.
2. Determine if the financial activities employment sector in the Dallas metro area has had a positive regional shift over time.
3. Determine the current phase of the Dallas office market cycle and how this would impact leasing strategy.

Note Your Findings

1. From the Pre-Case Study, Task 1, what is the current year EBM for the DFW Metro area at the Super Sector level?

2. From the Pre-Case Study, Task 1, what do the shift-share results at the super sector level indicate about the competitive advantage for creating financial activities jobs in the Dallas metro area over time?

3. From the Pre-Case Study, Task 2, what is the current market cycle phase for Dallas office properties?

4. Based upon the current market cycle position, what is the best strategy for Horizon Finance to negotiate a lease term and lease options? Why?

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” / “Browse All Variables” / “Create a Custom 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 of “+” to add the 3 combined variables).
 - Select “Income” / for the most recent year, select “Income by Age” / then use current year dropdown arrow to select “Household Income \$50,000-\$74,999 / Householder Aged 25-34” #
 - “Categories”
 - Select “Education” / “Age 25+ Graduate/Professional Degree” #
 - “Categories”
 - “Jobs” / “Industry” / “Finance/Insurance” #
5. After selecting “Add” / “Save” / “Ok” / “Apply”. After the slider tool appears, move the left slider to the right 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 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 Office 12_2021” / select “Open”.
- 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: Submarket Analysis



Objective

Determine the current total square footage of office inventory, total vacancy rate, average rental rate and average operating expenses in the targeted submarket using Market InSites data. This information will be used later in Task 10-5 to conduct the office gap analysis.

Rationale

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

Resources

Market InSites Office Report for Dallas Market, Plano-Allen Submarket

Steps

1. Determine the current total office square footage inventory in the submarket.
2. Determine the current vacancy rate in the submarket.
3. Determine the amount of new RSF of supply being added in the next 12-months.
4. Determine the average asking rental rate per RSF in the submarket.
5. Determine the average operating expenses per RSF in the submarket.

Note your findings

1. How many total RSF are currently in the office submarket inventory?

2. What is the current vacancy rate for office in the submarket?

3. What is the amount of new RSF of supply being added in the next 12-months?

4. What is the average asking rental rate per RSF in the submarket?

5. What are the average operating expenses per RSF in the submarket?

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 and information from Task 10-4

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 Vacancy Rate from Task 10-4, step 2 multiplied by Line 9
 - Line 11: Amount of new RSF of supply being added in the next 12-months from Task 10-4, step 3
 - Line 12: Stabilized Vacancy Rate % (use 19.0%)
 - Line 15: (use 12-months)
 - Line 16: Economic Base Multiplier from Task 10-1, step 1
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 gap analysis of this submarket, what does the occupancy rate, annual absorption, and stabilization date forecasts 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
- Target Property List worksheet
- Target Property Brochures

Steps

1. List the individual properties being considered in the CCIM Competitive Analysis worksheet ("Location Analysis" tab, row 13 "Comps").
2. Weight the location criteria variables in the CCIM Competitive Analysis worksheet ("Location Analysis" tab, column C).
3. Weight the building criteria variables in the CCIM Competitive Analysis worksheet ("Building Analysis" tab, column C).
4. Using data from the Target Property List worksheet and Target Property Brochures, score each of the targeted properties.
5. Select the property with the highest combined analysis rating in the CCIM Competitive Analysis Worksheet ("Summary Analysis" tab).

Note your findings

1. Based upon the Competitive Analysis Worksheet rating, what is the recommended office property?

2. What were the highest weighted location analysis criteria used for making this recommendation?

3. What were the highest weighted building analysis criteria used for making this recommendation?

4. What is the typical floorplate size (RSF) for the recommended office property?

5. What is the asking rent per RSF per year for the recommended office property?

6. What is are the operating expenses per RSF for the recommended office property?

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 recommended office property.

Rationale

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

Resources

- CCIM Lease Financial Analysis worksheet
- Information from Task 10-6

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**

Use 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**

Use the typical floorplate RSF for the recommended property from Task 10-6.

- **Line 3: Base Rent per SF**

Use the drop-down arrow to select “Base Rent per SF” and input the asking rent for recommended office property from Task 10-6.

(continued on next page)

- Line 4: Fixed Escalations per SF Annually

Use \$0.50 per SF.

- Line 5: Base Rent Concession (Number of Months)

Use 1-month free per year of lease term in Line 1. *For example: if Line 1 = 5 years, use 5 months in Line 5.*

- Line 9: Operating Expenses per SF

Use the drop-down arrow to select “Operating Expenses per SF” and input the operating expenses for the recommended office property from Task 10-6.

- Line 24: Operating Expenses Escalation Assumption

- Use 2.5%

2. Calculate the “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 recommended property?

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

End of task