



Landscaping and renovations help set Fern Ridge apart from other class B properties in Creve Coeur, Mo.

# A+ Strategies

B and C office properties graduate to full occupancy with these marketing approaches.

by **Stephanie Bell**

While some tenants enjoy the perks and tolerate the high rents of class A properties, many prefer the idea of lower rental rates and fewer amenities, particularly in an unstable economy. With a plethora of class B and C office space available in both large and small markets, commercial real estate professionals are utilizing creative marketing strategies to attract tenants and keep them happy once leases are signed. These CCIMs have devised a number of innovative marketing and leasing strategies to prove that any type of building has the ability to give businesses a new home.

Stephanie Bell is associate editor of *Commercial Investment Real Estate*.

## Showcase the Property

While their brokerage may have an in-house marketing department, Patricia A. Nooney, CCIM, SIOR, CPM, managing director, and Thomas H. Ray, vice president of CB Richard Ellis in St. Louis, pooled their own ideas to develop a marketing program specifically aimed at helping landlords lease class B office buildings. “At the crux of the plan is a desire to make a class B building stand out to potential tenants or separate the building from the background clutter,” Ray explains.

Since many class B buildings are similar in appearance and amenities, the duo focused on creating a brand for each building. “This often starts with giving the building a name if it doesn’t already have one. The name focuses on the location of the building to quickly attract attention,” Nooney says.

The plan also requires Nooney and Ray to be candid with property owners. “We believe in being upfront about improvements that could be made to help buildings be more attractive to potential tenants as well as what terms may be necessary to land tenants,” Ray says. To accomplish this, Nooney and Ray pay close attention to functional amenities, such as lobbies and conference rooms, since enhancing these spaces often helps differentiate one property from another.

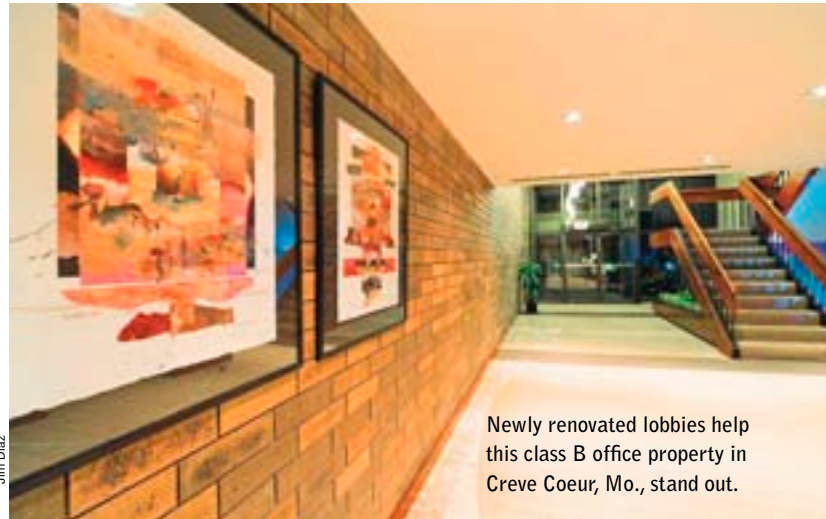
Encouraging landlords to compete not just on price but also on amenities, location, and brand is another key component. “Every building has a story to tell, and we want our marketing to highlight that story,” Ray says. This may include adding basic landscaping or a monument sign to help a building stand out. In another example, Ray represents a six-building, 400,000-sf class B office portfolio in Creve Coeur, Mo., a submarket of St. Louis. As part of the branding, Ray created the tag line, “Added Amenities, Added Service, Added Value,” to distinguish the buildings from other local for-lease properties.

The tag line also provides a natural conversation point during showings, “allowing us to talk specifically about what we are doing to upgrade the properties on a variety of levels,” Ray

says. For these buildings, the duo has signed several new deals and renewed tenants at higher rates due to the extensive renovations, which include renovated lobbies and corridors, new elevator cabs, and built-out training rooms in four of the six buildings.

The tag line approach also worked for the Olive Corporate Center, another struggling class B building in Creve Coeur. CBRE was asked to reposition the building, which was 40 percent vacant and had a poor reputation based on its “too far east” location, Ray explains.

The tag line, “Olive Corporate Center ... the Center of It All,” was developed to counter the perception that the building was in a bad location. “On the back of the marketing folder we added a map showing distances and drive times from a nearby interchange to St. Louis’ three primary traffic arteries,” Ray says. In doing so, potential tenants learned that even though the building’s distance from Interstate 270 was two miles, the property actually was located in the middle of a “triangle with excellent access to all three interstates, rather than just one,” he says. Within 18 months, Olive Corporate Center’s occupancy increased to 90 percent and currently the property is 98 percent occupied.



Newly renovated lobbies help this class B office property in Creve Coeur, Mo., stand out.

CB Richard Ellis

Jim Diaz



Texas Instruments and Great Wall Semiconductor are two of the major tenants in the Transamerica building, a class B office property in Tempe, Ariz.

Andrew Stuart Cheney, CCIM

## Build Relationships

Even after deals are closed, Nooney and Ray continue the marketing process. Press releases are sent to the media as well as to other brokers to “keep the property at the top of mind,” Nooney explains. Leasing transactions often draw in additional activity so Nooney and Ray try to focus on doing a number of deals with a few brokers rather than a few deals with many brokers to build strong relationships.

Andrew Stuart Cheney, CCIM, an associate with Lee & Associates in Phoenix, also believes in building relationships — with tenants — when working on deals. “The secret to leasing class B and C space is responsiveness. B and C tenants typically aren’t the type to have the patience to wait for a space to be designed,” he says. Brokers should be ready to deal with these tenants at a moment’s notice or they will move on to other buildings in the area, he adds.

To secure leases, Cheney pushes landlords to go the extra mile for potential tenants. “I always make landlords have at least a couple of build-outs ready to go in lease condition with signage saying, ‘Spec Suites or Move-in Ready,’” he says. Cheney also encourages landlords to approve proposals within 24 hours and leases within 48 hours and to present prospective tenants with short, reason-

Free parking attracts tenants to Trinity Building, a 10,000-sf, class B building in Decatur, Ga.



Fisher Park, CCIM

able leases. This shows potential tenants that the landlords are professional, cooperative, and extremely responsive. In addition, Cheney posts properties on LoopNet and CoStar, and sends e-mail blasts to prospects every three weeks. For open houses, “You don’t need 50 brokers. I

only invite the 10 most active brokers in the submarket to go through my spaces.”

Some brokers prefer to reach out to specific groups or organizations to find both brokers and tenants. “I co-founded the Young Office Brokers Association of Chicago in 2000,” says Jeb Scherb, CCIM, a partner at Ameritus in Chicago. “There are a couple hundred members, so I contact these brokers, and in turn, they find referrals, do cold calls, and spread the news by word-of-mouth.” Association members are typically young, independent brokers who want smaller deals. When targeting specific tenants such as law firms, Scherb and his partners advertise in the *Law Bulletin* and network through law firms and attorneys that have already bought space in the building.

### Offer Incentives

In Columbus, Ohio, the brokerage community makes it a priority to maintain strong relationships with one another. To accomplish this, building managers sometimes will offer brokers incentives such as Visa or MasterCard gift certificates to ensure their buildings are shown properly, says Christopher Potts, CCIM, vice president of Grubb & Ellis/Adena Realty Advisors’ office services group in Columbus. “Gift certificates are usually \$50 per showing and \$100 if a broker event is hosted at a building to show off a new renovation or a significant vacancy,” he says.

Incentives also help to woo potential tenants. In the greater Columbus market, brokers and tenants ask municipal economic development departments for income tax rebates, Potts explains. “Each opportunity is negotiated, but typically it starts with 30 percent of the income tax generated annually rebated to the tenant for the initial lease term not exceeding seven years,” he says. For instance, if the local income tax is 2 percent on the \$1 million dollar annual payroll,

a 30 percent rebate to the tenant would be \$6,000 per year of the initial new lease term. Additionally, the program is offered only to tenants that are generating new income tax dollars and is not available to existing tenants in the municipality, Potts says.

Columbus tenants also receive allowances and signage rights as motivation to lease. And depending on how aggressive the landlord wants to be at the time of signing, some tenants may receive free rent for two to four months. As for class C buildings, landlords often will increase the amount of free rent rather than reduce rates to maintain a higher investment value for the building, Potts says.

In the St. Louis market, one concession tenants ask for is the cost of wiring their space to be included in the rent. Traditionally, this has been something tenants have paid for on their own, but the “increasing reliance on technology as well as the movement of more firms to wireless systems, will have a significant impact on the future of the market,” Nooney says.

### Respond to Tenant Needs

Since B and C space has fewer amenities and less panache than class A space, it attracts tenants who have different needs. Generally, these tenants include nonprofit organizations; medical/healthcare companies; small law, accounting, and engineer-

ing firms; call centers; software companies; and Web startups.

“Activity in class B and C markets in St. Louis comes from a diverse group of organizations,” Nooney says. “We increasingly see companies that may not need the amenities and glitz of a class A

building because they don’t receive regular client visits, making the specifics of their office space less important.”

In Phoenix, Cheney finds that labor-intensive companies that are focused on processing work and low overhead rather than selling and impressing clients are his most popular B and C tenants. “The difference between class A, B, and C is related to front- and back-office operations,” he says. For instance, large financial-oriented companies require class A space because they meet with high net worth individuals or clients. But when Cheney targets other companies, such as engineering firms, he knows that B and C properties are a good fit since they don’t generally meet with clients.

After securing tenants, brokers must keep in mind the various needs they may have. “What these firms ... are interested in is saving some money to put back into operations. This can be accomplished by leasing a class B property, which can cost between \$5 and \$8 per square foot less than a class A building,” Nooney says.

Aside from cheaper rental rates, many tenants also want fewer square feet. “Most [of my] tenants are looking for smaller suites down to 1,000 sf,” Cheney says. They also want restaurants nearby, safety/security guards, cleanliness, predominately open build-outs, running water to the suite, canopy parking, high-speed

1Q08 Class B and C Office Snapshot						
MARKET	TOTAL SF (IN MILLIONS)		VACANCY (%)		NET ABSORPTION (SF)	
	CLASS B/C		CLASS B/C		CLASS B/C	
Atlanta	51.4	5.8	18.0	24.3	(198,246)	67,890
Chicago	94.7	34.4	19.3	15.7	(803,014)	115,011
Columbus, Ohio	15.1	7.5	18.9	13.6	(76,877)	(65,294)
Phoenix	25.6	5.2	16.6	20.3	(115,584)	(60,498)
St. Louis	18.4	9.1	16.8	12.8	89,639	(13,498)

Source: Grubb & Ellis

Internet, 24-hour cooling for their server room, and higher parking ratios, he adds. As for terms, 10 percent of the time tenants want a five-year term but the majority wants two- to three-year terms with a couple months of free rent.

In Decatur, Ga., a submarket of Atlanta, Fisher Paty, CCIM, finds that his tenants also want shorter leases compared to the five- to seven-year lease terms for class A buildings. A partner with Oakhurst Capital Partners in Decatur, Paty is active in tenant representation and says that with smaller space requirements, class B and C tenants prefer gross leases instead of net or modified gross leases and free parking if available. For “smaller tenants, [paid parking] can add significant ‘rent’ on a psf basis,” he says.

Since most prospective B and C tenants don’t have the budgets for tenant improvements, Paty usually offers turnkey space. If not turnkey, then he also recommends that landlords offer tenants finite build-out options that include only three or four carpet and paint choices to control the inventory and guide tenants to quick decisions.

### B and C Challenges

Though it presents many opportunities, leasing class B and C office properties can be challenging. A major obstacle can be keeping tenants happy enough to stay even though they may be able to afford class A space in the current market. “Almost all the B and C vacancies can be pointed to tenants that have moved up in class due to the flat nature of base rents,” Potts says. His solution is to achieve a base rent reduction.

In Phoenix, Cheney finds that “taking care of tenants for the long term” is one of his major challenges. Some tenants like to stay between five and 15 years in one location, but during that time period the company may grow or downsize, and landlords need to be ready to accommodate them, he explains. Cheney stresses that putting in the right amount of improvements to maintain building quality while not raising rental rates too high is key to keeping tenants.

Despite economic uncertainty, commercial real estate professionals working with class B and C office properties have found that not all tenants want or need top-notch space. Brokers who go the extra mile with smart marketing strategies and efficient service will be able to keep their B and C buildings leased for years to come. ■

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