

Commercial Real Estate Group of Tucson LLC

Make Informed Decisions to Counter Market Uncertainty

Is the commercial leasing market stabilizing or is it fragile and just one major event away from crashing? This mystery is on the minds of commercial tenants throughout the United States and beyond.

We have seen 0.9 percent absorption of office space in the U.S. over the past year; however, office job growth is only 50 percent of that figure. Houston contributed most to that modest growth, and Atlanta also demonstrated signs of life. Alternatively, Northern New Jersey and St. Louis suffer from insurance and pharmaceutical contractions. The domestic vacancy rate is now 16 percent—nearly twice that of Asia and the Euro zone.

New office space also is slow to sprout. Only 0.6 percent of new office space will arrive this year while the 30-year average is north of 2 percent. New supply is estimated to be delayed 3-4 years.

Demand remains limited and rents remain low (up only 0.7 percent from last year) due to widespread caution in the marketplace. Significant capital is sidelined because businesses that lease space are highly concerned that new taxes and healthcare costs will force them to reduce their staff and workspace. Across the U.S., business owners and operators await signals that the economic environment is once again favorable for expansion. Until this occurs, it is plausible that occupancy and rental rates will remain idle.

Internationally, demand has also slowed. Economic growth in many Asian markets decreased over the past five quarters due to a weakened global economy and tighter domestic policies. Nevertheless, vacancy rates in Moscow and Frankfurt have declined, and rental rates in Beijing and Sao Paolo have increased.

Tenants must make highly informed decisions with respect to their commercial real estate leases. ITRA Global advisors specialize in educating corporate real estate decision makers so that they can execute the most informed strategic decisions. Call your local ITRA Global advisor today to discuss your options.



Michael Coretz



Fun with Mozilla Firefox

Technology Icon Expands Worldwide

By Mark & Anna Rosen, Co-Founders, ITRA Global / Rosen Realty Group
 Silicon Valley and San Francisco, California, USA

Our work with Mozilla, the Mountain View, California-based technology organization best known for developing the Firefox web browser used by 450 million people worldwide, began in early 2011 with a highly unusual but pleasurable phone call from Mozilla CFO James Cook.

“Are you ready to have some fun?” he casually asked, explaining that the company planned to expand in North America and globally to tap into areas with high concentrations of “Mozillians,” the hearty band of open source developers who write the code for the popular web browser.

He was very specific about the features required in the new locations: Cities influential in Web development with excellent artistic and cultural communities. Moreover, the non-profit parent organization “dedicated to keeping the power of the Web in people’s hands,” would only be interested in bicycle-friendly facilities close to transportation, restaurants, and entertainment venues.

That seemed like a tall order but very much in keeping with the roots and growth of an organization that has more than 400,000 community contributors worldwide who provide approximately 40 percent of the code to its Internet products. The new office locations would be especially important as gathering points for Mozilla’s volunteer base.

To achieve their expansion plans, we worked with Mozilla executives on site

selection and formulated a strategic global rollout plan, as well as created an internal real estate and facilities department to decide which aspects of the expansion should be done in-house or outsourced.

Office With a View

Our firm began the first phase of the expansion by searching for office space in San Francisco, where Mozilla could tap into its contributor base and take advantage of the city’s highly educated pool of technology talent to staff the office. We quickly identified Hills Brothers Plaza, the renovated historic coffee roasting facility along the Embarcadero waterfront, as the ideal location.

The rooftop deck, in particular, would be the perfect space for its employees and volunteers to gather, but city codes and fire regulations seemed daunting and, at times, impossible to satisfy. Nonetheless, we worked hard behind the scenes with the city planning department and mayor’s office to meet their requirements, and we gained approval to create a deck that had world-class views of

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So You Want to Sign a Commercial Lease in Toronto, Eh?

By Jeff Howell, Vice President & Principal
ITRA Global / Nidea Realities Corporation Limited, Brokerage
Toronto, Canada

Toronto, like many large international cities, offers a distinctive business climate that reflects local regulations and national traditions, but the city also holds another important distinction: it has endured the volatility of the global corporate real estate market during the last four years remarkably well.

Toronto's financial core is perhaps experiencing its strongest upswing ever, with four towers in the financial district that have been completed in the past 24 months and two more currently being constructed. That's a stark contrast to the previous 20 years when only one building was constructed. This strength is attributed to our strong banking system, which has weathered the global recession.

While the suburbs and industrial real estate lack this strength, few bargains can be found in the metropolitan area. That said, there are abundant opportunities available in nearby regions. For example, we worked with an international food company to obtain industrial space for their suburban distribution centre. The buildings that we toured were in the \$5.00 PSF net rental rate range in Toronto West as opposed to \$1.50 PSF just over our border in parts of Michigan in the United States, making certain commercial transactions in Toronto—and generally in Canada—more difficult.

Oligopoly of Landlords

Two-thirds of Canadian corporate real estate is controlled by seven landlords. This is actually beneficial in finding space; I would rather make seven phone calls than 20 any day. It is also beneficial for tenants that need to change their square footage mid-lease as each of the big seven landlords has millions of square feet in Toronto.

Conversely, negotiating a transaction can be painful. These landlords have many layers of management. Response times can be very slow. Creativity, entrepreneurialism, and deal-making are traits rarely demonstrated by these landlords.

For example, the leasing agent for a large landlord went on vacation for two weeks with a 25,000 square foot deal that needed only one initial to finalize it, but the tenant never heard back from the agent and they consequently relocated. In another situation, a tenant moved from their building to one owned by a landlord with a smaller portfolio of properties after waiting seven weeks to receive a response to their offer. A lack of competi-

tion and big-company bureaucracy are not the best conditions for deal-making.

Building Valuation is King

Landlords are reluctant to throw money at tenants, but that is their preference in almost every situation. Why? Contributing cash towards a tenant's leasehold increases the net rent. Increasing the net rents in a building increases the value of the building, and increasing the value of the building allows landlords to leverage their buildings to buy more buildings.

Most quoted net rental rates will include \$5-\$15 PSF for tenant improvements. That kind of allowance tends to only have a cosmetic effect such as paint and carpet (the typical tenant would spend about \$45 per square foot on raw space). The dream scenario for a landlord would be to contribute the nominal tenant improvement allowance within the asking rates and then amortize the balance of improvement costs across the rent schedule, which typically adds \$5-\$15 per square foot per annum.

Offer to Lease vs. Letter of Intent

Every country has slightly different procedures to get from finding the space to getting the keys. Our process is to submit an offer to lease. In Toronto, the tenant is responsible for inserting a condition to pull out of a lease in its offer. Meanwhile, the landlord will typically insert a condition to review the tenant's financials.

The offer is typically revised by the landlord, then again by the tenant. The average offer to lease typically goes back and forth four times. Once the deal is conditionally accepted by both parties, the next step is for each to sign waiver letters, making the commitment firm and binding on both parties.

This is where it gets tricky. The transaction is now binding, but both parties have agreed to agree on the lease. In other words the deal is done, but both parties agree to make a few minor changes to the lease. Many countries have the lease as a hurdle to jump over before a deal is finalized (the deal is not done until the lease is fully executed). I am thankful we do



not have that as part of our deal-making process because it takes long enough given the challenging landlord conditions mentioned earlier.

Transparency of Information

Canada has an equivalent to CoStar called Altus. Although there is no alternative, Altus has created a user-friendly platform that streamlines the search process and creates reports. While this is very helpful in finding new space, there is, unfortunately, no repository of completed transactions for brokers. Therefore, finding out the current status of rental rates comes down to networking within the brokerage and landlord community. As a tight-knit community, most landlords view brokers as their extended sales force, and they are open to sharing information

Fees

Unlike most real estate brokerages in the rest of the world, Canada is like the U.S. because real estate brokerage commissions are paid by landlords. This is true even when the broker represents the tenant. In most cases, if the tenant does not have a representative then the full fee will be absorbed by the landlord broker.

Conclusion

Since Toronto's leasing market is dominated by a few, but very large, players, it makes it easy to find space, get paid on transactions, and build rapport with the leasing agents for landlords since there are relatively few of them. It is the actual negotiation of the deal that requires comprehensive market knowledge, diplomatic skill, and expert strategic action to win the best terms and secure the optimal facility when a company leases commercial space in Toronto.

Select ITRA Global Transactions

- **ITRA Global / Cooke, Swaney & Cooke** represented Henslee Schwartz LLP on a 9,867 square foot office lease in Dallas, Texas.
- **ITRA Global / CARMEN Commercial Real Estate Services, Inc.** represented T2 Systems, Inc., on a 17,801 square foot office lease in Indianapolis, Indiana.
- **ITRA Global / Customized Real Estate Services, Inc.** represented Shell Oil Company for a 10,500 square foot office lease in League City, Texas.
- **ITRA Global / Martin Property Advisors, Inc.** represented Holsum Bakery/Flowers Foods, Inc. for an industrial lease of 15,580 square feet in Tolleson, Arizona.
- **ITRA Global / Nidea Realities Corporation Limited, Brokerage** represented L & T Infotech for a 38,000 square foot office lease in Mississauga, Ontario in Canada.
- **ITRA Global / CARMEN Commercial Real Estate Services, Inc.** represented Atkins Nutritionals, Inc. on a 211,000 square foot distribution center relocation from Chicago, Illinois to Indianapolis, Indiana.
- **ITRA Global / PG Commercial Real Estate, Inc.** represented Penco Products in leasing a 40,000-plus square foot warehouse in Bensalem, Pennsylvania.
- **ITRA Global / Stagman Commercial Real Estate Advisors** represented Kahane & Associates, P.A. for a 29,900 RSF Class "A" office lease in Plantation, Florida.
- **ITRA Global / Compass Commercial, LLC** represented The Leukemia & Lymphoma Society for an 8,300 square foot office lease in San Diego, California.

Office, Industrial and Retail Facilities

- Regional, National, International Headquarters
- Research & Development
- Life Sciences
- Warehouse / Distribution
- Manufacturing

Real Estate Market Analysis

- Acquisitions
- Dispositions
- Lease Renewals

Negotiations

- Proposals
- Leases
- Dispositions
- Acquisition Contracts
- State & Local Incentives
- Sale / Leasebacks
- Work Letters
- Operating Expense & Tax Audits
- Architectural / Engineering Contracts
- Developer Agreements

State & Local Incentive Negotiations

- Statutory and Negotiated Incentives
- Cash Grants
- Infrastructure
- Tax Credits and Abatements
- Workforce Grants and Training
- Subsidized Land and Building Costs

Lease Management

- Lease Abstracting
- Financial Reports
- Tax & Operating Expenses

Strategic Planning

- Model Development
- Acquisition/Consolidation Analysis
- Policies & Procedures Manuals
- Space Planning

Location Analysis

- Labor Market Analysis
- Transportation Costs
- Utility Costs & Availability
- Quality of Life
- Taxation
- Market Accessibility

Financial Analysis

- Buy vs. Lease
- Build-to-Suit
- Equity Participation
- Sale / Leasebacks

Surplus Property Analysis

- Marketability
- Highest & Best Use
- Disposition Strategies

Project Management

- Needs Assessment
- Project Budget Management
- Selection and Oversight of Design Team Contractors and Vendors
- Move Coordination



North America

Second Quarter 2012

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent
1	Asheville	10.3M	7.70%	0.8M	\$15.57
2	Atlanta	299.1M	16.1%	48.3M	\$18.47
3	Austin	42.7 M	15.0%	6.4 M	\$25.95
4	Baltimore	130.5M	12.3%	16.1M	\$21.45
5	Boston	76.2 M	13.7%	10.5M	\$32.52
6	Charlotte	96.8M	12.8%	12.4M	\$19.28
7	Chicago	327.0M	16.3%	53.4M	\$24.50
8	Colorado Springs	28.0 M	17.1%	4.8M	\$11.00
9	Dallas/Ft. Worth	338.2M	16.1%	54.4M	\$19.59
10	Denver/Boulder	185.1M	12.3%	22.8M	\$19.97
11	Detroit	189.9M	18.7%	35.5M	\$17.96
12	Fairfield County, CT	54.2M	14.2%	11.9M	\$32.11
13	Ft. Lauderdale/W Palm Bch	89.8M	17.0%	14.8M	\$25.43
14	Grand Rapids	16.9M	23.8%	4.0M	\$15.64
15	Houston	268.7M	12.2%	32.9M	\$23.64
16	Indianapolis	96.4M	9.9%	9.6M	\$16.01
17	Las Vegas	60.6M	19.8%	12.0M	\$20.23
18	Long Island	158.9M	8.5%	13.5M	\$26.22
19	Los Angeles	422.7M	12.5%	52.6M	\$27.79
20	Miami - Dade Cty	99.6M	13.8%	13.7M	\$28.55
21	Minneapolis	182.4M	9.1%	16.6M	\$16.51
22	Nashville	71.6M	8.30%	5.9M	\$18.46
23	Northern New Jersey	265.0M	18.4%	58.4M	\$23.62
24	New York City - Downtown	120.0M	8.5%	10.2M	\$38.28
25	New York City - Midtown	382.0M	11.0%	42.5M	\$53.65
26	Norfolk	165.7M	14.0%	5.5M	\$17.23
27	Orange County (CA)	151.2M	13.5%	20.5M	\$22.26
28	Orlando	102.7M	12.5%	12.9M	\$18.35
29	Philadelphia	94.0 M	11.0%	11.4M	\$25.49
30	Phoenix	136.6M	21.4%	31.4M	\$20.62
31	Pittsburgh	92.9M	8.0%	7.8M	\$19.30
32	Portland	9.7M	11.0%	7.5M	\$20.35
33	Richmond	61.0M	11.0%	6.7M	\$16.74
34	Salt Lake City	84.3M	6.4%	5.4M	\$16.85
35	San Diego	111.9M	13.4%	15.0M	\$25.52
36	San Francisco	93.2M	13.8%	12.9M	\$38.85
37	Seattle/Puget Sound	180.6M	10.8%	19.5M	\$25.19
38	Silicon Valley	90.0M	13.6%	12.3M	\$29.64
39	Spokane	21.2M	10.2%	2.2M	\$15.34
40	St. Louis	132.6M	12.8%	17.0M	\$17.70
41	Tampa	142.5M	13.8%	19.7M	\$18.45
42	Toronto	170.0M	5.4%	16.3M	\$18.18
43	Tucson	23.8M	12.2%	2.9M	\$18.79
44	Washington, D.C. Metro	459.8M	13.4%	61.8M	\$48.90 CBD \$34.21 Metro
45	Westchester County, NY	165.5M	12.4%	20.5M	\$27.58

London

Second Quarter 2012

	DISTRICTS	Take Up (sf)	Vacancy	Prime Yield	Prime Rent*
46	London West End	0.51M	2.6%	4.0%	£95.00
47	London City	1.24M	4.8%	5.25%	£55.00
48	London Docklands	0.76M	6.0%	N/A	£38.50
49	London Midtown	0.40M	2.9%	5.50%	£52.50

Definitions for London

*"Take Up" - Space absorbed in the previous quarter / "Grade A Vacancy" - Available Space / "GBP" - British Pounds / per sq ft.

Two World-Class Panels Featured at ITRA Global “Doing Business in the Americas” Symposium in London

ITRA Global organized two outstanding panel discussions for “Doing Business in the Americas,” a premier all-day Symposium held recently at the Park Plaza Victoria London in England.

The invited audience included top executives from European companies, in addition to ITRA Global clients. Topics covered ranged from state and regional incentives to site selection factors and other key issues essential to successful business expansion throughout North America and Latin America.

Debra Stracke Anderson, Chairman of the Symposium Committee and President and CEO of Washington, D.C.-based ITRA Global / Sloan Street Advisors, says the event was a tremendous resource for company executives who must navigate a significantly changed global marketplace.

“The Symposium provided attendees with crucial information about changes in business expansion logistics and site selection factors in the United States, Canada and Latin America brought about by the challenging economy of recent years,” Anderson explains.

The distinguished Corporate Guest Panel was comprised of high profile executives who shared case studies and experiences relevant to today’s business expansion in the Americas, including property availability, build-to-suit, leasing versus owning, and more. The Symposium represented an opportunity for the executives on the panel to share their unique perspectives with attendees from Europe and around the world.

Anderson, who also is Chairman Emeritus of ITRA Global, moderated the Corporate Guest Panel discussion that included top executives from the following companies:

- Mars, Incorporated
- Mozilla Corporation
- Skanska Commercial Development USA
- Whirlpool
- ITRA Global / Pollina Corporate Real Estate, Inc.

The Economic Development Guest Panel was moderated by ITRA Global Chairman Emeritus, Dr. Ronald Pollina, who also is the author of the “2012 Pollina Corporate Top 10 Pro-Business

States Study.” The panel included top officials from the following government agencies in the Americas:

- Missouri, USA
- Pennsylvania, USA
- Ontario, Canada
- Sao Paulo, Brazil
- Colombia
- Mexico
- Panama

“The Economic Development Guest Panel covered such matters as transportation, labor, taxation, business-friendly culture, and many other regional differentiators that company executives must consider when expanding to the Americas,” says Pollina.

Structured as a moderated forum, guests had the opportunity during the Symposium to ask questions during the panel discussions, networking sessions, and on a one-on-one basis with Economic Development officials and ITRA Global Site Selection experts via pre-arranged appointments. Also included in the day’s schedule was a networking luncheon and a cocktail reception to conclude the event.

Fun with Mozilla Firefox *Continued from page 1*

San Francisco Bay. Although Mozilla signed a lease for the space within a month, our job was far from over for this location.

Our next challenge was to establish a bicycle program for Mozilla’s San Francisco employees that allowed them to ride throughout the downtown area or take bikes on the train to its Mountain View headquarters. So our real estate firm initiated and helped create a bike-sharing program that featured regular and folding bicycles painted orange, plus helmets, locks, and safety lights—all emblazoned with the Firefox logo—that today can be seen throughout the entire Bay Area.

Going Global

With the San Francisco expansion complete, Mozilla turned its attention to London. We introduced Jim Cook to Martin Levy, Managing Director of London-based ITRA Global / Martin Levy Commercial. Multiple executives working over nine time zones, plus the challenge of finding the right location in a huge metropolitan area that is London, were all part of the experience. With Martin’s hard work, ITRA Global identified a great location on St. Martin’s Lane in Covent Garden that has since become a

highly popular gathering place for Mozilla’s contributors in the United Kingdom, especially during the Queen’s Diamond Jubilee and the 2012 Summer Olympics.

Back again to North America, we worked with Debra L. Stevens of Boston-based ITRA Global / The Stevens Group who moved quickly to find a great location for Mozilla in the Innovation District of Boston. Next we headed back across the Atlantic to Paris, where Charles Tatham of ITRA Global / Tatham Property Solutions worked tirelessly with us to first obtain temporary, and then permanent, office space that Mozilla will occupy in Q1 2013 in the historic Montmartre section of the city.

These Paris transactions, along with another we completed for Mozilla in Berlin, proved to be very challenging due to French and German laws governing real estate. Each country has different business practices and regulations, and understanding these nuances is critical to completing transactions successfully. To make matters even more interesting, we also initiated and conducted negotiations with government agencies in Paris and Berlin for economic incentives that will benefit Mozilla as well as the governments of both those cities.

We also worked with Mozilla on lease renewals in Vancouver and Toronto in Canada, and in Auckland, New Zealand. Our most recent assignment for Mozilla is Portland, Oregon, where we’ve been working with ITRA Global / Hume Meyers Tenant Counsel to obtain various incentives from the city and locate exciting and creative space in the heart of the Pearl District. Unbelievably, Mozilla also recently signed a lease for an additional two floors at Hills Brothers Plaza in San Francisco, more than doubling its existing space in the building.

Conclusion

Throughout our journey of finding the perfect office locations around the world for Mozilla, we unquestionably had fun but, more importantly, witnessed the intricacies of the global marketplace and how interconnected cultures are in today’s world. That’s why it is critically important for any company seeking to relocate or expand outside of their native country to find conflict-free corporate real estate representation with local affiliates who can identify, understand, and effectively bridge commercial and cultural differences that can make or break the transaction.

Global Coverage

NORTH AMERICA

Asheville
Atlanta
Austin
Boston
Chicago
Colorado Springs
Dallas
Denver/Boulder
Detroit
Fairfield County
Ft. Lauderdale
Grand Rapids
Houston
Indianapolis
Long Island
Los Angeles
Nashville
New Jersey (Northern)
New York City
Norfolk
Philadelphia
Phoenix
Pittsburgh
Portland
San Francisco/Silicon Valley

Toronto
Tucson
W. Palm Beach/Boca Raton
Washington, D.C.
Westchester County, NY

LATIN AMERICA

Bogota
Buenos Aires
Caracas
Cordoba
Curitiba
Lima
Mexico City
Monterrey
Montevideo
Panama
Puerto Rico
San Jose
Santiago
Santo Domingo
Sao Paulo

EUROPE

Göteborg
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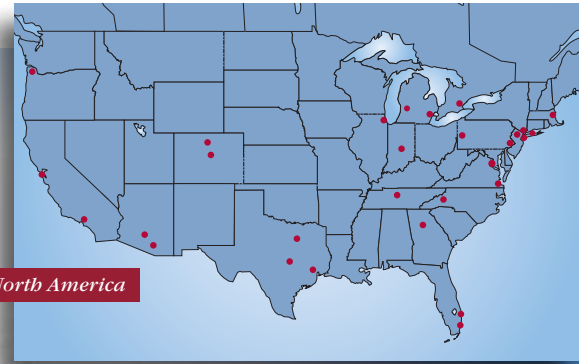
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ASIA

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Hagatna (Guam)
Hangzhou
Hong Kong
Pune
Shanghai
Suzhou
Tokyo
Wuxi

AUSTRALIA

Brisbane
Melbourne
Sydney



North America



Latin America



Europe



Asia



Australia

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ITRA Global provides corporate real estate services for tenants and buyers throughout the world.