

Office tenant perspective



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Office tenants today are sophisticated and understand the tightening of the leasing market. In the Toronto context they have recognized that, while there are still some economical opportunities available, the downtown market has generally shifted in favour of the landlord. This, coupled with high realty taxes in Toronto, continues to prompt the question whether or not it is preferable to move to the surrounding suburban regions. This question is not limited to Toronto, as tenants in major centres across the country have the same desire to reduce operating expenses.

Though there has been some shift to lower cost locations, primarily by administrative or support offices, many tenants find it a necessity to have a downtown presence. They need to be near the city's core, near clients and to take advantage of public transit and other infrastructure amenities. Tenants also recognize the value of having an educated and skilled labour pool within a reasonable commuting distance. The pragmatic increase in rental rates by landlords has allowed many tenants to renew and remain in their current space.

A city's core market remains healthy because of the mix of vertical markets represented there. This mix of tenancies, the addition of new companies and the organic growth of existing companies continues to strengthen the market.

Trends

While most tenants are aware of environmental concerns, it is not significant enough to seriously impact their decisions. However, owners of newer buildings are seeking LEED certification, strengthening the marketing platform of their product. In addition, in order to compete with new construction, many landlords of existing older product are looking at ways of tying into the 'green movement' through things like the BOMA Go Green program.



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The biggest trend being seen from major office tenants in urban markets is consolidation. For example, Rogers in Brampton, EnCana in Calgary, Corus, Maple Leaf Foods, Telus and CGI have all consolidated a number of their satellite offices into central hubs.

Corus, for example, looked at several different options from purchasing an existing building in the suburbs, to a build to suit in the suburbs or in downtown, to simply maintain status quo. In the end the best option came in the form of a new development on the waterfront by Toronto Economic Development Corporation to be leased in large part by Corus. One Waterfront Place will be a seven-storey, iconic, 500,000 square foot office building on the Toronto waterfront, anchoring the development of the East Bayfront Precinct. Corus Entertainment Inc will occupy approximately 380,000 square feet.

Own versus lease debate

One of the biggest reasons to own property is the desire to control one's own occupancy costs, especially in a tight rental market. A certain image is often associated with being an owner, rather than a renter.

However, one major adverse factor is the cost of land. The highly competitive condo market, institutional ownership and attractiveness of land to foreign investors has driven the costs up significantly. Consequently, the cost to own has generally become higher than the cost of renting.

Hot buttons

There are a number of hot buttons that are felt by tenants. Increasing taxes and operating costs top the list, particularly the taxes in the core.

New supply is also a hot topic. In a market like Calgary, the over 9 million square feet of new supply under way should bring welcome relief to tenants with pent-up demand who have had nowhere to move and have faced significant rental rate escalations in the past few years. In Toronto, with over 3 million square feet under construction for 2009 delivery, the reaction is two-fold. Some question what will happen to rental rates and vacancy levels when this new supply comes on stream and whether to wait before making a move, while others see this as a great opportunity to move up into better quality space without a significant impact in financial obligation.

Tenants are also concerned about operational efficiencies of the buildings they occupy and many look at a lease audit process to ensure that their costs are in accordance with their lease.