

Efficiency pushes firms to consolidate office spaces

BY AMANDA COOK

The recent trend of office space consolidation might be read as a sign that confidence is returning to the local economy. Making these kinds of decisions means that business owners have moved past the stage of 'just holding on' to formulating concrete plans for their future.

"Tenants are now willing to get beyond what happened during the recession. A couple of years ago they were begging for 6-12 month extensions or lease provisions because they weren't sure where they were headed. Now they're signing longer-term



MARK PALMER

Post-recession optimism driving long-term leases

leases in larger spaces that might allow them to bring their workers into one location," said Mark Palmer, senior vice president at CBRE.

In its report on the St. Louis office market for fourth quarter of 2011, NAI DESCO posted positive net absorption of 148,879 square feet for Class A office space and 39,612

square feet for Class B office space. This resulted in a 2.3 percent net overall decrease in the vacancy rate. They also reported a slight increase in asking rents.

Some of the largest of those real estate

'In 1984, the average corporate user occupied 400 square feet. Now it's 150.'

Dave Morris | Colliers International

deals have been consolidations.

American Family Insurance consolidated three offices into more than 70,000 square feet in the Riverport Commons IV building. The Outsource Group consolidated three offices into 400,000 square feet at CityPlace Center in Creve Coeur.

Covidien is currently in the market for 100,000 square feet, while Sisters of Mercy is looking for one large space in Chesterfield, both for folding multiple offices into one location.

"Two locations — Earth City and Riverport — are seeing a lot of activity from companies that are consolidating. Those areas are close to the workforces of North County and St. Charles and they have the high parking ratios required for denser users," said Mike Donovan, principal with Balke Brown Transwestern, a local commercial real estate brokerage.

Donovan's company believes in the trend so much that Balke Brown Transwestern is in the process of completing the acquisition of a building in one of those areas.

"We see what's going on (in) the market. In addition to parking requirements, business owners want efficient space because it is generally less expensive per person. They're now looking at their leases as a cost per person rather than a cost per square foot. We're confident that this new building can be successful because it meets the criteria that these users are looking for," Donovan said.

Efficiency is a buzzword among those who are consolidating. Experts report that technology, flexible work hours, and less formality in the workplace are leading to changes in how offices are configured. Spaces now have fewer conference rooms, smaller private offices, and more 'hoteled' work areas that are shared among employees who are in the office less frequently.

"In 1984, the average corporate user occupied 400 square feet per person. Now it's 150 square feet. It's not just that individual offices are shrinking; it's that we don't see a lot of large meeting rooms and common areas anymore," said Dave Morris, senior vice president with Colliers International and president of the Society of Industrial and Office Realtors (SIOR) in St. Louis.

What this means for building owners is that they should carefully consider their planned upgrades. Nicer common bathrooms, a shared conference room and comfortable break areas could make a big differ-

ence when tenants are comparing spaces.

It also means the value of their buildings may be shifting with the changing needs.

"The buildings that are more efficient probably have more value today than they did three or four years ago. The inverse is probably also true. I'm sure it will impact the kinds of buildings that get built in the fu-



MIKE DONOVAN

Earth City and Riverport leading consolidation movement

ture," Donovan said.

Moving all their employees into one space means tenants are more selective about the building they choose. Palmer reports that the clients he works with are now spending more time investigating the landlord and the property's stability.

"Tenants who are going to do a longer lease and want improvements need to know if a property is over-leveraged or if the owner has undercapitalized himself. They also want to be sure the building won't be cutting services that they depend on," said Palmer.

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