The Officeminium™: ***Alternative Tenure Choice in the Office Business Center Market***

by

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ABSTRACT

The Office Business Center (OBC) is a shared office facility, which is fully equipped, staffed and furnished. Many small business and sole proprietors choose OBC space over traditional leased office space because it alleviates the upfront cost and time required to maintain and manage an effective office infrastructure.

Additionally, the persistence of low commercial mortgage interest rates have helped to witness a rise in office space ownership through the growth of the office condominium market – a market which is also dominated by small businesses and sole proprietorships.

This thesis investigates the viability of a new real estate product, the Officeminium™. The Officeminium™ is a hybrid product which combines the ownership tenure of the office condominium and the full service environment of an OBC.

The Officeminium™ provides a subset of small business owners and small proprietors with a hedge against rent risk and opportunistic agency, while affording office building owners and developers with a means to reduce excess building capacity and potentially increase the value of their real estate asset.

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1 INTRODUCTION

Globalization, enhanced information and communication technology, and an increased emphasis on work-life balance have all impacted the demand for traditional commercial office space. These forces, coupled with the rise and fall of rental rates driven by real estate market cycles, have contributed to the need for developers and property owners of commercial office space to identify alternative ways to maintain building occupancy and enhance cash flows. To achieve their business objectives, many developers and property owners are embracing the Office Business Center (also known as the Executive Office Suite) product as way to absorb excess building capacity.

The Office Business Centers (OBCs) "…are shared office facilities, which are fully equipped, staffed and furnished and are available on-demand. For a monthly fee, customers receive the use of an office (or offices) with necessary services such as telephone answering, connectivity services and office management. They also share common areas, such as reception, kitchen and lavatories, with other clients in the facility. Additional services, e.g., fax, copying, courier, word-processing, technical support, are generally available and are typically billed as used. Office Business Centers generally include four elements: office accommodations, business services, amenities and managed technology."[1] The OBC is merely an expansion of the services provided with a traditional office product which embraces short-term rental contracts (in some instances, as short as hours). The concept has gained popularity within the real estate community because it enables the user of office space to concentrate their attentions on their core competence of running and managing the operations of their business and not be distracted with the responsibilities of maintaining an office infrastructure. The addition of support services to the real estate function allows businesses to completely outsource their real estate function to the OBC provider[2]. Additionally, the OBC model takes advantage of the economies of scale provided by exploiting the shared service concept of distributing fixed operating costs and service capacity across multiple users.

The OBC product has proven itself to be viable in lease tenure; however, the key question for exploration is whether or not the OBC product can be as valuable to the owners of office real estate assets in ownership tenure? By combining the OBC product with the elements of condominium ownership, a new real estate product is created -- the Officeminium™.

The Officeminium™ provides an opportunity for developers and owners of commercial office buildings to dispose of excess capacity while simultaneously increasing their building's value. If owners dispose of excess building capacity by selling it to individuals as Officeminium™ space, they will be able to reduce their operating costs by passing on some of those costs to the owners of the Officeminiums™. Without the Officeminium™ owners, the owner of the building would still bear the operating costs associated with the vacant space. Selling the vacant space as Officeminiums™ will allow the owner to maintain the same gross revenues they currently receive, and effectively increase their current net operating income (NOI) because they have held their revenues constant while reducing their costs. The underlying assumption which differentiates the economic value of the Officeminium™ from the traditional office condominium is the price premium which can be charged due to the availability of the bundled services. This price premium is currently observable in the market when comparing OBC products with traditional for lease office space. The market prices these bundled services

[1] Office Business Center Industry Association, "Press Kit," 2005.

above and beyond the actual cost of provision, which indicates that the mere provision of these services creates additional value in the real estate asset. The Officeminium™ is more than just a tool to assist the building owners and developers reduce excess capacity. As will be evidenced in the case study presented in Chapter 4, the Officeminium™ concept can actually increase the underlying value of the building.

The primary objective of this thesis is to provide evidence for the viability of the Officeminium™ product. To achieve this objective, the following assumptions and hypotheses will be explored:

1. The demographic characteristics of the users of OBCs and office condominiums are similar. Both sets of users are typically small businesses and sole proprietorships in professional service industries; however, OBC users typically have businesses that merely require basic office services (i.e. reception, conference/meeting space, information and communication technology infrastructure). In the case of office condominiums, 65% of users are in the medical services industry[3] and as such, are generally required to make significant capital investments in specialized equipment. The OBC users would be considered the primary demand set for the Officeminium™.
2. The theories of rent risk and opportunistic agency suggest that users of traditional office space or OBCs who either have sufficiently long planning horizons and/or whose businesses require significant capital investments in specialized equipment or office space build-out are most susceptible to rent risk

[2] Peltier, Scott, "Analysis of the Supply of Serviced Office Space," MIT Masters Thesis, 2001
[3] Roberson, David, Shea Commercial

(which is market driven) and/or opportunistic agency (which is situation specific). As such, ownership of office space is growing (as evidenced by the expansion of the office condominium market) and, it is hypothesized that buying office space is an effective means to hedge against both rent risk and opportunistic agency and can enhance business value.

3. It is also hypothesized that the value of a specific real estate asset which employs the Officeminium™ model will be greater than it would be if it employs a traditional lease model because the Officeminium™ model reduces the operating costs and increases the net operating income for the building owner thereby increasing the building's present value.
4. The Officeminium™ Association will typically have a minority interest in the overall building which creates additional risk for the Association's investment in their real estate assets. This additional risk yields more complex governance considerations than the typical office condominium so traditional governance models are not an effective means of addressing the risk to the Officeminium™ owner. Therefore, it is hypothesized that the existing governance structures of office condominiums are not optimal for addressing the risk to the individual Officeminium™ owner or the collective Officeminium™ Association. As such, hybrid governance models for Officeminiums™ will be explored.

The hypotheses will be explored in the thesis by first providing an overview of OBCs and office condominiums. A review of the theories of tenure choice will be provided next; and then an overview of the Officeminium™ concept and it key characteristics (including a profile of the demand set) will be discussed. Then, a case study of a specific building in the Cincinnati, Ohio market will be used to provide evidence of the potential market viability of the Officeminium™ product. Finally, a discussion of governance considerations and a potential Officeminium™ governance framework will be investigated.

Based on the evidence that will be presented in the thesis, it is reasonable to conclude that the Officeminium™ concept is viable. The ownership tenure of the Officeminium™ provides a hedge against rent risk and opportunistic agency for small businesses and sole proprietors who have sufficiently long planning horizons and/or must make significant capital investments in specialized equipment or office space build-out. Even in those markets like Cincinnati where office rental rates are less volatile, the Officeminium™ model can increase the value of real estate asset. The Officeminium™ is not as valuable to those users of office space with short planning horizons. If the planning horizon is not long enough to sufficiently amortize the higher upfront cost (e.g. closing costs) of the Officeminium™, then even in markets with high volatility in rental rates or in certain situations where the changing locations could lead to a loss in business value (e.g. extended down-time before operations can be restored), the enhanced business value of the Officeminium™ will not be realized. Finally, the thesis concludes that the Officeminium™ governance model must use a voting structure which is not entirely driven by ownership percentages . Ownership percentages refers to the individual owner's share (or percentage) of the undivided interest of the property. Specifically, if there is a condominium development with five units, all of equal size, then each owner would have a 20% interest in the entire development. That interest affords them exclusive use of their private, deeded unit, and shared use of all common areas (e.g. open green space). Under traditional condominium voting rules, the individual Officeminium™ owner, who may have a very strong voice in the Officeminium™ Association based on personal relationships or a large space which affords her a significant ownership percentage, may be significantly disadvantaged as the collective Officeminium™ Association would have a limited voice in making management decisions governing the entire building because of the voting power afforded to the owner(s) of the remainder of the building.

2 EXISTING SMALL BUSINESS OFFICE PRODUCTS

2.1 Office Business Center

2.1.1 History[4]

The OBC industry began to emerge in the late 1960's. In response to the needs of clients, secretarial services firms and telephone answering businesses began offering office space. A natural development that sprang up independently in many locations, these facilities were typically small scale, utilitarian operations with from 10-20 offices located in modest buildings.

In 1972 HQ Business Centers, which became the largest organization in the industry, created the template for today's OBCs when it opened a sizable, upscale facility in a Class A high-rise at 44 Montgomery Street in San Francisco. OfficePLUS, which started in St. Louis, established similar facilities in the Midwest. Atlanta based OmniOffices pioneered the concept in the Southeast. Such professionally managed and serviced centers in good buildings made Office Business Centers a logical alternative to conventional office space for businesses of all types and sizes.

By the end of the 1970's, HQ Business Centers had begun to establish franchises as part of a plan to create a global network. It was during this era, that World-Wide Business Centres opened its first overseas office in London. These developments looked forward to the global expansion of the industry.

In the 1980's, the OBC industry exploded. Across the country, enormous numbers of office buildings were constructed, in part, in response to readily available financing from S&L's and others. Anxious to fill their new buildings, landlords offered attractive deals to prospective

[4] Office Business Center Industry Association, "Press Kit," 2005.

OBC operators. Terms routinely included one to two years of free rent, construction costs, and even cash payments which were called moving or telephone system expenses.

These incentives made it exceedingly easy to enter the business. As a result, OBC locations multiplied; many were undercapitalized and badly managed. In some parts of the country, there was so much over capacity in office buildings and in OBCs, that even the best managed locations had difficulty succeeding.

Jane Booras, and industry consultant, who in 1985 founded the Executive Suite Network, the forerunner of the Office Business Center Association International (OBCAI), put it this way: "I remember when you could get off at Orange County Airport [in Southern California] and throw a stone in any direction and hit at least two executive suites. And they were all about 40% occupied."

The S&L scandal combined with the real estate crash of the mid to late 1980's led to a shake-out. Many OBC locations failed and landlords were often left holding the bag. The industry did not begin to recover until the early 1990's.

From 1985 to 1992 there were very few new centers built. Later in that period the lack of new construction eventually balanced the overbuilding in the 80's and vacancy rates in OBCs began to drop. New operators took over failed properties and revenues began to rise. In 1989, British entrepreneur, Mark Dixon founded Regus Group which is the largest company in the industry today.

Throughout this period, OBCAI played a key role in shaping the industry and helping it recover. The organization offered seminars and conventions with learning and networking opportunities. It served as a forum for shaping information and helped improve landlord-industry relations.

As the 1990's progressed and demand increased as a result of the trends described above, the industry began to pick up momentum. To provide a national presence, several smaller operators formed the ALLIANCE Business Center Network to serve corporations that needed locations in multiple markets. World-Wide Business Centres Network was similarly formed with a majority of international locations.

Then, in a series of moves, the industry began to consolidate as major investors sought to create national and international networks to meet the expanding needs of corporations, which were increasingly outsourcing their real estate operations to OBCs.

2.1.2 Products and Services

The services provided by the OBC are fairly standard across locations. The primary difference in service provision is typically in the pricing structure. Figure 1 outlines a fairly standard inventory of basic services which are included by full service or virtual office product as well as additional services that are available but incur additional charges when used.

Figure 1: Services Provided

	Full Service Office	Virtual Office	Additional Services
Individual Executive Office	✓		
Prestigious Business Address	✓	✓	
Personalized Telephone Answering of Incoming Calls	✓	✓	
Furnished and Decorated Reception Area	✓		
Professional Receptionist	✓	✓	
Message Center Secretaries	✓		
Office Management	✓	✓	
Business Identify on Building Lobby Directory	✓	✓	
Facsimile Number for Client Use	✓	✓	

	Full Service Office	Virtual Office	Additional Services
Mail and Package Receipt	✓	✓	
Voicemail	✓		
Hi-Speed Internet Connection	✓		
Utilities and Janitorial Service	✓		
Word Processing Services			✓
Copy and Binding Services			✓
Outgoing Mail and Express Delivery Services			✓
Printing and Office Supplies			✓
Miscellaneous Purchasing Services			✓
Catering and Beverage Services			✓
Call Patching/Call Transfer			✓
Specialized Telephone Services			✓
Long Distance Telephone Service			✓
Specialized Equipment			✓

Source: Columbia Suites, Cincinnati Ohio

The Full Service Office product is geared towards the needs those customers whose needs are both immediate and short-term or those who require a full-suite of services for the longer-term. The Virtual Office product is tailored towards those customers who require longer-term solutions, but their business model or specific business needs do not necessitate regular use of a full cadre of services.

The products and services that are provided in the OBC have evolved over time in response to the changing business environment which values both mobility and flexibility.

“Three megatrends are changing the way people work: increased outsourcing, increased globalization of business, and increased use of technology. These trends are driving a requirement for greater workforce mobility and flexibility. The result is the need for a solution that enables people to work virtually anywhere. These trends have expanded the marketplace. The following chart (Figure 2) illustrates the evolution of the serviced office space industry [OBC]."[5]

Figure 2: Evolution of Products and Services

Pre-1995 Executive Suites	1995-1999 Office Outsourcing	2000-Present Office Solutions
SPACE	SUPPORT SERVICES	TECHNOLOGY
Office Space Conference Rooms Day Offices Training Rooms	Office Space Conference Rooms Day Offices Training Administrative Support Copiers, Facsimile Telephone Answering Mail Services Catering Concierge Services Desktop Publishing	Office Space Conference Rooms Day Offices Training Administrative Support Copiers, Facsimile Telephone Answering Mail Services Catering Concierge Services Desktop Publishing Teleconferencing Broadband Access Subscription Computing Web Conferencing Video Conferencing Unified Messaging Virtual Assistant

Source: Frontline Capital Group, Form 8-K, November 7, 2000

2.1.3 Supply

[5] Peltier, Scott, "Analysis of the Supply of Serviced Office Space," MIT Masters Thesis, 2001

OBCAI has estimated that there are approximately 5,500 OBC locations in worldwide; of which, nearly 73% are located in North America. With an average size of 17,834 SF per location, the aggregate OBC market is around 71 million SF of total office space, which represents only 1.5% of the entire inventory of North American office space.[6] Despite its relatively small size in relation to the entire inventory of office space, the OBC industry continues to grow. Based on their 2004 Office Business Center Industry survey, of the 71 OBC operators that responded, over 91% opened OBC locations the previous year, with a market contraction (or closing of centers) by only 6.1% of the respondents. The growth evidenced in the OBC market could merely be a function of an oversupply of office space in the market, and the OBC is a tool to reduce overall supply of space for the traditional office market product.

The average size of an office in an OBC is 309 SF; and there are on average 52.7 offices per location.[7]

2.1.4 Revenues

Estimated worldwide revenues from OBCs are between $2.5 and $3 billion.[8] The OBCAI survey suggests that based on annual revenue size, OBC operators can be stratified into four categories: Less than $500,000; $500,000 to $999,999; $1 million to $2 million; and over $2 million. Those OBC operators whose revenues are under $1 million account for 74% of the industry.

Rent and service charges is the largest income category, accounting for over 63% of an OBC's revenue. Distribution of revenue by all categories is as follows:

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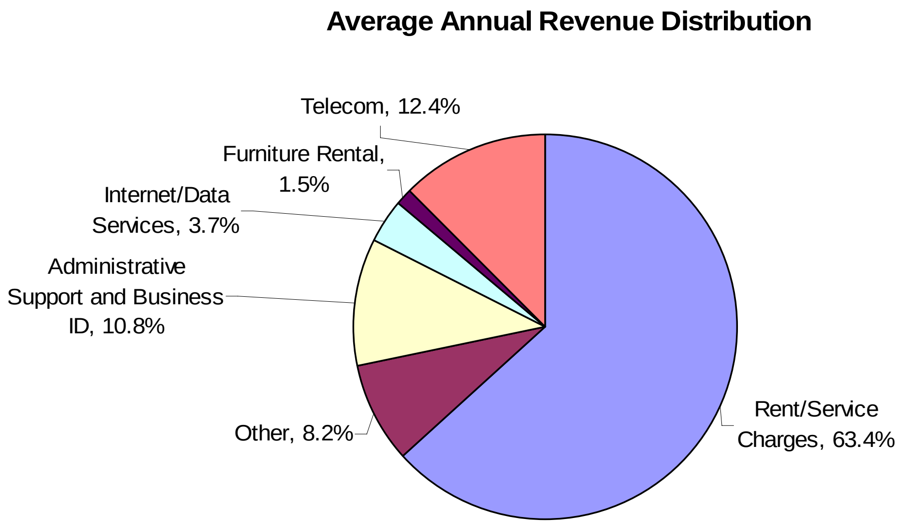
[6] Collier's International reports that the total downtown and suburban office space inventory in North America to be 4.86 billion SF as of 31 March 2005

[7] Office Business Center Industry Association, "Office Business Center Industry Survey," 2004.

[8] Office Business Center Industry Association, "Press Kit," 2005

Figure 3: 2004 OBC Revenues



2.2 Office Condominiums

The most important elements of the office condominium product are: (1) it is an ownership tenure model for office space which is not only well established and observable in the market, but growing, (2) the governance structure tends to duplicate that of the residential condominium where voting is based on a pro rata share of the common undivided ownership interest.

Office condominiums were originally pioneered decades ago by members of the medical profession as a means to avoid the risk of escalating rental rates charged by hospital and medical campuses[9] The prevailing thought behind office condominiums is that they afford the users of office space more control over their expenses because they are able to fix their office space costs and thus project their ongoing office space expense more accurately.

[9] Maese, Kathryn, "Office Space Goes Condo As Trend Takes Hold In LA: Professionals Opting to buy Rather Than Rent," Los Angeles Business Journal, 13 Sept 2004; Roberson, David, Shea Commercial

While fairly novel five years ago, there has been significant recent growth in the office condominium market. Office condominiums have gained significant momentum with mortgage interest rates at historic lows. As described by the Wall Street Journal's realestatejournal.com 2003 article "Amid Low Interest Rates, Office Condos Multiply," "…while average office-rental rates in Manhattan have fallen about 30 percent during the last three years, prices for office condos have increased 50% during the same period." The growth in office condominiums in the Manhattan office market has been observed by commercial real estate brokers in a wide array of markets: "Today, office or commercial condominiums are proliferating in cities such as new Orleans, Houston and Washington."[10] Cushman and Wakefield projects that in the Richmond, Virginia market "…[the] office condominium development and sales market continues to have an effect on small leased space. We expect this market to continue as long as interest rates remain favorable." Colliers International makes similar projections for the Orlando, Florida MSA and the Greenville, South Carolina MSA; and Grubb & Ellis have similar observations in the Miami-Date County office market: "Another byproduct of low interest rates is the exploding office condominium market that developed seemingly overnight. More than 1.6 million square feet is now being marketed, from being a non-factor two years ago. Developers are betting that, with abundant low cost capital still available, small firms typically needing less than 5,000 square feet would jump at the chance to secure their real estate costs, while simultaneously building equity."

This anecdotal evidence suggests that there is rising demand for owned office space. The average size for an office condominium unit is 3,000 SF with about 2/3 of units being between

[10] Maese, Kathryn, "Office Space Goes Condo As Trend Takes Hold In LA: Professionals Opting to buy Rather Than Rent," Los Angeles Business Journal, 13 Sept 2004; Roberson, David, Shea Commercial

1,500 and 3,000 SF. The maximum size for an office condominium unit is generally 5,000 SF. Though many market observers have ascribed a cadre of benefits to office condominium ownership, it seems that their meteoric rise in popularity is more commonly attributed to the current availability of low interest rate mortgage loans. Unfortunately, there is not much academic literature dedicated to the study of office condominiums, but some of the benefits of office condominium ownership which have been identified are: (1) significant tax advantages, (2) building equity, (3) property appreciation, (4) predictable and stable monthly expenses and (5) locking in a prime location even if rents spike.[11] The coincidence of low interest rates may be a function of an over supply of available office space in the market.

Despite their current popularity, there are those who argue that the benefits of office condominiums do not make them more advantageous than leasing, for all users of office space. "Office condos are not for everyone, but many entrepreneurs have discovered that buying office space rather than renting it saves money and adds to their asset base…just about any established business that can predict its space needs with reasonable certainty is a candidate for an office condo."[12] In addition, some real estate scholars would argue that the tax advantages associated with office condominium ownership are fictional, as the anticipated tax benefits of owning office space are afforded to users of leased office space because it is already captured in the rental rates charged by building owners. The only way these tax advantages could provide a true advantage to the small business or sole proprietorship in an ownership tenure would be if the small business or sole proprietor had a lower tax rate than the typical owner of a commercial office building. The absence of any extraordinary tax benefits afforded to office condominium owners would

[11] Riggs, Jim, "Office Condominiums Boom Despite Poor Economy," www.naiop.org, 2004.
[12] Lynn, Jacqueline, "Shacking Up – Office Condominiums," Entrepreneur, February 1999.

lead to the conclusion that unless you have confidence that the asset values will appreciate, you would have no economic incentive to acquire an office condominium. This is particularly true when you have a short-term planning horizon because the upfront costs of occupancy are higher for a condominium than they are for leased office space.

As the office condominium is an owned asset, it can only be acquired by an all cash purchase or through some type of debt instrument. In the case of the all cash purchase, the high upfront cost (e.g. financing and closing costs) is obvious; however, the typical office condominium debt structures require at least a 10% upfront equity investment and has a loan note which is amortized over 25 years and is usually 200-300 basis points above the risk-free rate.[13] In addition, the acquisition of an office condominium will generally require some level of owner investment to build-out the space to meet the new owner's specific needs and space configuration requirements. Sometimes, in the case of new construction, the office condominium developer may provide some owner improvement allowance; however, the office condominium owner generally incurs some additional out-of-pocket cost for build-out.

Finally, governance of the office condominium is very similar to the governance structure found in residential condominiums. In most instances, there are no significant governance issues above and beyond those typically experienced with residential condominium associations. All owners become part of a mutual condominium association and that association and the management decision of the undivided ownership interest in the property is governed by a condominium association board of directors. The condominium association board of directors is duly elected by the majority of the members of the association based upon the individual pro rata shares of the undivided ownership interest.

2.3 User Demographics

The demographic profiles of OBCs users and office condominium owners have many similarities; however, they differ as OBC users come from a wider range of professional service providers, whereas, the majority of office condominium users (65%) are from the medical services industry.

> Gibson and Lizieri developed the idea of the core-periphery business space model. The argument states that occupiers, and corporate real estate managers, should similarly differentiate between their core and periphery real estate portfolio. The core portfolio is the space likely to be required on a long-term basis, even though it may be used differently over time. Full ownership of space is typically the contractual translation for long-term commitment…two layers of peripheral space supports this core. The first comprises space with shorter-term contractual arrangements…while the second is space on demand.[14]

The needs of small businesses and sole proprietorships (e.g. OBC and office condominium users) are typically limited exclusively to core space as they are both capital constrained and their scope of services does not generally necessitate a need for first or second periphery space.

Figure 4: Business Space Model

TYPE	CONTRACTUAL CHARACTER	FUNCTIONAL CHARACTER
Core Space	Owned	• Ability to change use • All aspects are controlled
First Periphery	Leased	• Includes minimal services • Ability to exit
Second Periphery	Serviced	• Immediate occupancy possible

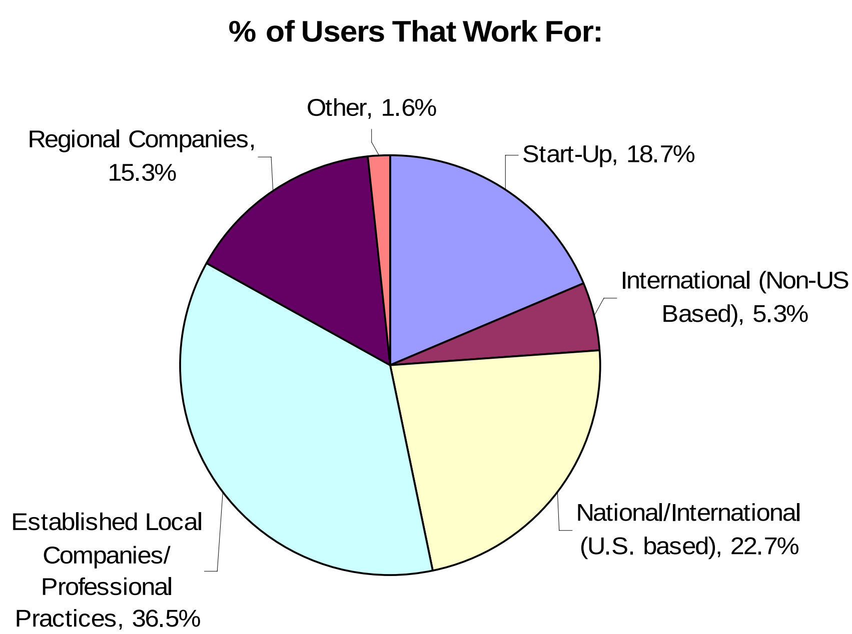
[13] David Roberson, Shea Commercial
[14] Troukens, Philippe, "Demand for Serviced Office Space," MIT Thesis, 2001.

		• Ability to contract and expand

Source: Troukens, Philippe, "Demand for Serviced Office Space," MIT Thesis, 2001

The demand for OBCs is distributed across a variety of types of businesses and represents a wide array of service industries. 36.5% of the existing demand comes from established local companies or professional services organizations, and 18.7% come from start-up companies. The balance is regional, national or international in nature[15].

Figure 5: OBC User Demographics - Type of Business



In addition, the OBC is most commonly being used by start-up and established local companies. The most telling element of the demand for OBC space is what type of office environment OBC users were in before transitioning to an OBC. An average 56% of OBC users in 2004 came from either Home Based Offices or were Conventional Office Space, and 21% came from Start-up Businesses who have not leased office space previously.[16] The important element to note is that the majority of OBC users are small established companies or start-ups that transitioned into OBCs from conventional office space or home based offices. In the OBC market, the median length of a lease is 12 months, with 11 months as an average.

The typical office condominium owner has been in business for 5 to 15 years, is between the ages of 35 and 55 and is in the professional services industry. 65% of office condominium owners are part of the medical services industry. Office condominium owners tend to be sole proprietorships or small businesses with an average of three principals (owners).[17] For the majority of office condominium owners (those in the medical services industries), there are significant upfront capital costs associated with equipping and building-out their office space. Unlike other professional services firms whose equipment needs are typically limited to available information and communication technologies (e.g. phone, fax, high-speed internet and duplication) and whose build-out needs are typically limited to standard private offices or open cubicles, reception, and conference room needs; the medical services firms are highly regulated and monitored by the government and, as such, have mandated equipment (e.g. sanitation, refrigeration and hazardous materials disposal) and build-out needs (e.g. examination rooms and treatment rooms) which can be very costly.

Both OBC and office condominium users are typically providers of professional services, however, the majority of office condominium users provide medical services which have distinct business needs that require a higher upfront capital investment in equipment and office build-out

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[15] Office Business Center Industry Association, “Office Business Center Industry Survey,” 2004.
[16] Office Business Center Industry Association, “Office Business Center Industry Survey,” 2004.
[17] Roberson, David , Shea Commercial

than do other professional services firms. The office services required by non-medical professional services firms are fairly standard, and this commonality enables the OBC to take advantage of the economies of scale provided by having a shared services model.

3 TENURE CHOICE

3.1 Rate Volatility

There is a significant body of literature which addresses the issue of rent risk (or rental rate volatility) -- a key element of housing tenure choice. "In particular, a renter is subject to periodic rent adjustments whereas a homeowner can lock in the cost of future housing services. In essence, bundled into the house purchase is a hedge against rent fluctuations."[18] This theory of tenure choice as a hedge against rent fluctuations is considered to be more valuable the longer the expected time horizon: "…everything else being equal, the household is more likely to own, the longer the time it expects to spend in the property it is considering. This result arises because ownership allows the household to lock in future rents at their expected value."[19]

Though the theories of tenure choice are almost exclusively limited to the housing context, these same tenure decisions are being made in the office space context with the increasing popularity of the office condominium. Office space users have similar financial considerations regarding their vulnerability to period rental rate increases. These considerations are not as prevalent for businesses who have significant space requirements (greater than 10,000 SF) because they will typically sign leases which are 10 years or more in duration and if the rates are not fixed for that period, the potential increases in rate are established before the lease is fully executed. The small business or sole proprietor, however, has a greater degree of exposure to rent volatility. Therefore, it stands to reason that the same considerations that household

[18] Sinai, Todd and Souleles, Nicholas, "Owner-Occupied Housing As a Hedge Against Rent Risk," National Bureau of Economic Research, Working Paper 9462, 2003.
[19] Ortalo-Magne, F. and Rady, S., "Tenure Choice and the Riskiness of Non-Housing Consumption," Journal of Housing Economics, Vol. 11, 2002.

evaluate when determining tenure choice, would be directly applicable to the small business or sole proprietor.

One of the most important elements of rent risk theory is that the longer the duration of time an individual or business intends to remain in a location, the greater their exposure to rate volatility and as such, the higher the probability that they will choose to own versus rent. Though some would argue that there is an equally risky proposition, that ownership exposes the individual or business to real asset price risk (the risk that the value of the asset will decrease), Sinai argues that a lengthy expected exposure to rent risk negates real asset price risk because the rent risk will dominate the real asset price risk, and subsequently, the demand for ownership tenure increases.

> Holding the house price fixed the demand for home owning increase with rent risk. However, more rent risk also leads to greater house price risk. We find that the impact of rent risk on a household increases with its expected stay in its residence, and that for a household that expects to stay in its residence beyond a few years, the risk of renting can dominate the asset price risk of owning. This result occurs because rent fluctuations affect renters every year whereas the asset price risk to owners is realized on at the end of their stay in their house, when they sell. If the realization of the house price is sufficiently discounted, either because the homeowner expects to remain in the house for a long enough time or her discount rate is sufficiently high, the rent risks dominate the discounted house price risk, increasing demand for home owning relative to renting.[20]

The concept of rent risk is thought to be applicable in both residential and commercial contexts, because the tenure choice arguments between the two are expected to be correlated. Long-term fixed price leases could be a substitute for ownership, as a hedge against rent risk. In the case of the small business or sole proprietorship, however, who only require small office space (less than 3,000 SF), it is difficult to secure a long-term fixed price lease because building owners who are willing to lease out smaller space, are always hoping to get larger tenants, who

[20] Sinai, Todd and Souleles, Nicholas, "Owner-Occupied Housing As a Hedge Against Rent Risk," National Bureau of Economic Research, Working Paper 9462, 2003.

have greater space requirements, as soon as possible, because they are typically more established and lower risk than smaller tenants. Additionally, landlords realize that fewer tenants with larger average space utilization are less burdensome to manage than are a larger number of tenants in smaller spaces.

Most landlords prefer the flexibility of being able to readily combine smaller tenant spaces with additional vacant space to accommodate the needs of a larger tenant. Therefore, in order to secure a hedge against rent risk, ownership tenure is typically the only option afforded small businesses and sole proprietorships who have small office space needs and have long planning horizons. Rent risk theory predicts that households and businesses may choose ownership tenure as a hedge against future fluctuations in rent payments if they expect to occupy the space for a sufficiently long time.

3.2 Opportunistic Agency

Opportunistic agency describes those situations when tenants who have specialized space requirements, or sensitive equipment which is costly to move, are taken advantage of by landlords who, charge above market rents or give unfavorable lease terms because they recognize the value afforded a tenant by being able to stay in their current location. The concept of opportunistic agency has its basis in the financial economic theories regarding vertical integration:

> The theory of vertical integration suggests that firms should own assets when potentially incomplete contracts expose them to future opportunistic behavior by their contracting partners (Klein, Crawford and Alchian 1978, Williamson 1979). If real estate needs to be highly specialized to a particular manufacturing process, for example, the firm faces a hold-up problem when it anticipates that the landlord will expropriate some of the value of the specialized leased space from the firm in the future….the hold-up problem arises from the fact that the firm may not, in fact,

> invest in a project if some of the returns are expected to be captured by the landlord…When the return to investment are highest in the current use of real estate, the investment is said to be *specific* to the lease relationship.[21]

Small businesses and sole proprietorships could also be considered highly susceptible candidates to opportunistic agency, because they typically have small space needs which are akin to highly specialized real estate in the market for commercial office space. In many instances, owners of high grade (Class A or B+), are unwilling to demise office space into blocks of 1,000 SF but instead, are willing to let the space remain vacant until a firm with greater space needs desires tenancy. For those landlords that are willing to demise smaller space or provide short-term leases, they typically will not provide any tenant improvement allowances which force the tenant to either make due with the existing finish or invest their capital to re-fit the space. Greg Gilliott, Vice President at Cincinnati Commercial Realtors, a member of the Cushman Wakefield Alliance says that:

> Tenants with space needs of less than 1,000 SF, can find an abundance of space in Class C and in some less desirable Class B product [office buildings]. They will take the space 'as-is' and if any improvements are done, they are done on their nickel. Most owners of Class A and highly desirable Class B product will not demise space that small because the cost of demising the space and the associated tenant improvement allowances require a long tenancy to fully recoup the associated costs. These landlords would rather wait for a tenant who needs at least 3,000 SF to come around to make it worth their while. Landlords who do have small space available in the higher end products will allow for shorter lease terms (one to three years with one year renewals) as these smaller tenants are generally consider a higher risk than well established, larger, tenant with high grade credit.

A limited supply of available small space (under 1,000 SF) in the more desirable buildings, allows those landlords who provide small space, to opportunistically increase the rental rate at the time of renewal because the tenant has limited options for finding comparable space.

[21] Fisher, Lynn, "The Wealth Effects of Sale and Leasebacks: New Evidence," Real Estate Economics, V32, 2004.

Opportunistic agency not only applies to those firms who require highly specialized real estate, but also includes those firms whose business value could be depressed by a temporary interruption in operations caused by a physical location change. In the case of medical service providers who make significant investments in sensitive equipment that is not easily or quickly ported to new locations, a physical location change could create long lead-times and lost revenues before operations can resume because of the time and potential safety inspections required for equipment re-installation in addition to the new set up costs

Opportunistic agency creates considerable risk for tenants because if the landlord recognizes the leverage it has over the office tenant based on the business value which could be lost if the tenant is forced to move from its current location, the landlord could opportunistically increase the tenant's rental rate to a level which is above current market rents. As long as the net impact to the value of the tenant's business is positive (i.e. present value of the cost of moving minus the present value of the increased rent) then the tenant would be more likely to remain in their current location and pay above market rents instead of moving.

4 OFFICEMINIUM™

4.1 Overview

An Officeminium™ is a hybrid of the OBC and a traditional office condominium. It is individual office space which is owned by the individual or entity which needs the space, but it is part of an association which has shared administration, infrastructure and facilities operating expenses. The product is targeted towards the small business and sole proprietor market, which, in many cases, would like office space in the CBD, but either cannot locate small space for lease (under 500 SF) or doesn't have the expertise or the capital necessary to manage and maintain the infrastructure necessary to achieve maximum productivity.

Figure 6: Officeminium™ Value Relationships

The fundamentals of the approach to the Officeminium™ solution are:

- CBD location
- First-class office appointments
- State-of-the-Art information and telecommunications technology
- Shared reception and support services
- First class conference, board and meeting room space
- Various furniture and decorating options
- Flexibility to hold, sell or lease depending on business needs
- Greater level of control over cash outflows and services provided

The Officeminium™ provides an alternative tenure choice to the users of OBC space. By purchasing an Officeminium™, the OBC user is able to hedge against both rent risk and opportunistic agency. It has been previously established that there is a vibrant market for both OBCs (lease tenure) and office condominiums (ownership tenure). This product [the Officeminium™] can provide owners and developers of commercial real estate with more options for decreasing the overall building's vacancy, while simultaneously increasing its value.

Finally, the Officeminium™ approach is flexible. If the Officeminium's™ absorption period is longer than anticipated, this same fully fitted out space is already programmed to be managed as an OBC until the units are sold. Given that many users of OBC space are looking for very short-term tenancy, the Officeminium™ space could be generating revenues even during the marketing and sales process.

4.2 Characteristics

The Officeminium™ is a hybrid product which combines the services and attributes of the OBC, but has the ownership tenure of an office condominium. The governance structure of the Officeminium™ is more complex than the governance structure of the office condominium and will be discussed in detail in Chapter 5. The Officeminium™ value is that it is a fully functional "office-in-a-box" which allows the small business owner or sole proprietor the ability to quickly and easily move into the space and immediately begin conducting business. In addition, it is provided in an ownership tenure, which protects the small business or sole proprietor from both rent risk and opportunistic agency.

As evidenced by the price premium charged for OBC space over traditional office space, the provision of the "office-in-a-box" is more highly valued by many small business owners and sole proprietors. Even though the Officeminium™ owner will pay the costs for the suite of services provided by the Officeminium™ Association through a regularly assessed Officeminium™ Association fee; the costs for provision of these services are both shared and distributed across all Officeminium™ owners. These costs borne by the Officeminium™ owner are actual costs and do not include the mark-up charged by the OBC, therefore, the cost per unit of service is less for the Officeminium™ owner than for the OBC user. This additional value created by the provision of the "office-in-a-box" will enable the Officeminium™ developer to command a price premium per square foot over the office condominium (which provides no specific services).

Services

The Officeminium™ relieves the small business or sole proprietor of the time and energy required to create an effective office infrastructure by offering a suite of services which afford the owner the freedom to focus their attention on operating her business instead of managing her office infrastructure and basic support staff. To achieve this object, the Officeminium™ provides fully fitted physical space bundled with office services. The Officeminium™ services will fall into two categories: standard and premium. Standard services are those which are provided to all Officeminium™ owners and are included in the monthly maintenance/Officeminium™ Association fee. Premium services are those are available to an Officeminium™ owner and charged on a per use basis. The following chart provides a list of both basic and premium services.

Figure 7: Officeminium™ Services

	Standard Services	Premium Services
Individual Executive Office	✓	
Prestigious Business Address	✓	

	Standard Services	Premium Services
Personalized Telephone Answering of Incoming Calls	✓	
Furnished and Decorated Reception Area	✓	
Professional Receptionist	✓	
Message Center Secretaries	✓	
Office Management	✓	
Business Identify on Building Lobby Directory	✓	
Facsimile Number for Client Use	✓	
Mail and Package Receipt	✓	
Voicemail	✓	
Hi-Speed Internet Connection	✓	
Utilities and Janitorial Service	✓	
Word Processing Services		✓
Copy and Binding Services		✓
Outgoing Mail and Express Delivery Services		✓
Printing and Office Supplies		✓
Miscellaneous Purchasing Services		✓
Catering and Beverage Services		✓
Call Patching/Call Transfer		✓
Specialized Telephone Services		✓
Long Distance Telephone Service		✓
Specialized Equipment		✓

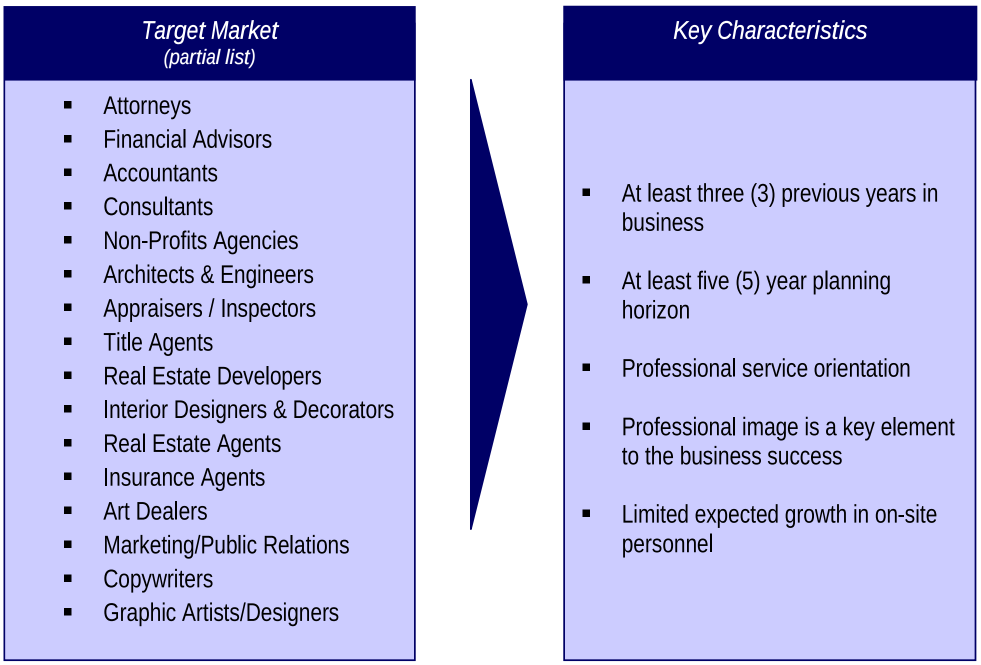
The Officeminium™ space is also fully fitted with top quality finishes and fixtures. The space is anticipated to be demised into four types of office space: individual office (~300 SF), two person office (~500 SF), small business suites (~1,500 SF), and large business suites (~2,500

SF). These four configurations will afford a greater diversity of tenancy, and also provide options for those small businesses which anticipate some growth in their on-site personnel, but can forecast the magnitude of that growth. In addition to the individual offices and suites, the Officeminium™ will have additional demised space for a board room and multiple conference and small meeting rooms. These board, conference and meeting rooms are provided at no additional charge to the Officeminium™ users and are available based on a schedule which is centrally managed (most likely by the receptionist). Each Officeminium™ Association will make it own rules governing the scheduling of conferences rooms, however, this scheduling process is envisioned to follow the same structure as is currently found in scheduling of common rooms and areas in full-service residential condominium contexts—on a first come first serve basis. Finally, the Officeminium™ space will include printing, duplicating and faxing stations that are strategically placed on of the Officeminium ™ space, and also a kitchenette to accommodate food and beverages.

Development Costs and Market Profile

The hard and soft costs associated with developing an Officeminium™ are higher than the corresponding costs associated with developing office condominium space. Where the Officeminium™ is fully fitted space, the office condominium is generally limited to core and shell construction. From the perspective of the non-medical professional services firm which is typically looking for a traditional professional office environment, the Officeminium™ build-out should be sufficient for their daily needs. Small businesses and sole proprietorships come in many forms, and the Officeminium™ is not the optimal solution across all of these categories. The Officeminium™ is developed with a standard build-out and therefore, is best suited for those businesses whose office needs are fully served by the Officeminium model; therefore, the target market should possess a set of common characteristics.

Figure 8: Officeminium™ Market Profile



The rationale underlying the Officeminium™ market key characteristics is as follows:

- At least three (3) previous years in business: It is a generally accepted theory that most businesses have the greatest risk of failure during the first three (3) years of operation. During the infancy stages of a business, most small business owners and sole proprietors are leery of making long-term investments, and are more capital constrained because they have usually not recouped their initial start-up costs until after year 3.
- At least five (5) year planning horizon: Small businesses and sole proprietorships with longer planning horizons have a greater incentive to own, as the rate volatility risk premium is greater than those will shorter planning horizons. Sinai provides evidence that “A longer horizon increases the number

of rent risks, and more heavily discounts the asset price risk of owning, increasing the net rent premium…Households with shorter horizons are exposed to fewer rent shocks and the discount the asset price risk less, so the net risk premium is smaller, in some cases negative"[22]

- Professional service orientation: Small businesses and sole proprietorships which exclusively use commercial office space tend to be in the professional services business. Other types of concerns (e.g. manufacturing, distribution, transportation, etc…) tend to require industrial or other specialized space, which may have an office component. Traditional office space is the core commercial real estate need of a professional services firm.
- Professional image is a key element to business success: In businesses which charge professional service fees, customer perceptions are important. If customers do not have a positive perception of the firm, then the firm's ability to extract revenues from the customer is diminished. Firms which demonstrate financial strength and stability build confidence in their client base. Therefore, being located in high class space in the central business district presents an image of success (whether it is warranted or not). By having a prestigious address, and a well fitted office space, firms are able to artificially manufacture credibility because high class, well fitted office space sends the message that: "We are good at doing what we do and therefore, we can afford the cost of this office space." The OBC market has learned to capitalize on the importance of

[22] Sinai, Todd and Souleles, Nicholas, "Owner-Occupied Housing As a Hedge Against Rent Risk," National Bureau of Economic Research, Working Paper 9462, 2003.

professional image, by providing specific “Professional Image” products as a part of their suite of market offerings. Firms which may be in the professional services industry, but have little direct client contact are less concerned about their professional image (e.g. debt collection, internet-based, etc…).

- <u>Limited expected growth in on-site personnel</u>: Officeminium™ space does not easily afford its owner the ability to continuously add headcount that was unplanned when its office space was initially acquired. Therefore, the Officeminium™ is best suited for those businesses whose growth in revenue is not solely based on a growth in on-site personnel, or those businesses that have already achieved their headcount growth objectives and are trying to grow (or maintain) revenues either through new product offerings, increased service fees, or through joint ventures or partnering with other firms.

Providers of medical services, though the primary users of office condominium space, would not be considered part of the target market for Officeminium™ space. While medical service providers do have some common office space needs, their office space generally requires specific tailoring to fit the practical as well as regulatory needs of their practices. A dentist would have specific equipment and space requirements that would be different from those of a chiropractor than would be different from those of a cancer treatment specialist. Part of the value of the Officeminium™ to the developer or building owner is that they can develop fairly uniform space throughout the Officeminium™ floor. This standard build-out can accommodate the needs of a wide array of potential buyers. Combining the needs of a medical services providers and the needs of non-medical professional services firms in the same common space, limits the overall economies of scale that the Officeminium space provides because the specialized space required by the medical services provider would only accommodate the needs of a particular type of provider or those providers whose practices were very similar in nature (e.g. internist and pediatricians). Co-location of medical services providers in the same Officeminium™ floor (environment) could be done, however, to achieve the same construction cost efficiencies for the developers or building owners and the same operating efficiencies for the Officeminium™ Association would require that the space be totally dedicated to medical services providers with very similar space, office services, and equipment needs which could be commonly shared between all of the Officeminium™ owners thereby providing the economies of scale afforded in a shared services environment. Co-location of professional services firms that have very different office usage needs negates the value of the shared services environment, and as such, erodes the value proposition of the Officeminium™ concept.

For the medical services firm which has more tailored or specialized build out needs, the office condominium is the more appropriate product because it affords the buyer the ability to build out the space to accommodate their specific needs. The Officeminium™ is programmed to have a standard or common build-out which accommodates the space needs of a broad set of users. The standard build-out which accommodates a wide variety of potential non-medical professional services buyers and has a lower build-out cost and a larger potential user base than the specialized space required for medical services providers.

Location

An Officeminium™ could be located in virtually any area with commercial office zoning. The target area for the Officeminium™ is the CBD because many professional services firms gain value from the proximity to other professional services firms and from the cache and credibility afforded to being located in the CBD. The office condominium demographic (which is primarily medical services professionals) is less likely to be located in the CBD because the cost of space is typically higher and the availability of inexpensive parking is generally lower. Though there are medical services providers who locate in the CBD, more often than not, they are located in areas which are zoned for commercial use, but are closer to residential areas. Given that the typical desire of the medical service provider (office condominium demographic) to locate outside of the CBD and the non-medical professional services provider to prefer a CBD location, the CBD is the prefer location for the Officeminium™.

Product Comparison

Figure 9: Product Comparison

	Officeminium™	Office Condominium	Office Business Center
Target Demographic	Non-medical professional service providers	Medical service providers	Non-medical professional service provider
Target Location	CBD	Urban non-CBD and suburban	CBD and suburban
Build-Out Type	Standard	Custom	Standard
Build-Out Responsibility	Developer	Owner	Developer
Office Services	Provided by Association	Provided by individual/owner	Provided by OBC operator
Tenure	Ownership	Ownership	Lease
Typical Unit Size	300-2,500 SF	3,000+ SF	300-2,500 SF

The Officeminium's™ value to the developer or building owner is that it provides them with the ability to capitalize the value of over capacity in existing or newly built real estate assets, while directly reducing the building operating costs by sharing them (pro rata) with the Officeminium™ Association. The developer or building owner should prefer the Officeminium™ to the office condominium because the developer or building owner can extract additional profits because of the additional value created through the "office-in-a-box" which includes the provision of a bundle of office services. Though there is additional development costs associated with the build-out of the fitted space, the additional value created provides the developer or building owner surplus income.

In addition, by selling the space, the Officeminium™ developer is able to capitalize the value of the space today, versus having an anticipated stream of future cash flows which are provided by an OBC. The risk profile of some developers favors immediate capitalization instead of a long-term stream of cash flows; and as such, many developers would prefer the Officeminium™ over the OBC.

Inherent with an OBC is the specific business risk associated with operating an OBC concern. In the case of those developers or building owners who are exclusively interested in risk associated with the development and sale of real estate assets or traditional leasing and building management, the Officeminium™ would be preferred because its risks are more comparable to their specific risk profiles. An OBC operator is more keenly focused on the discrete issues associated with office management as well as those associated with shorter-term, high turn-over tenancies; while the Officeminium™ or office condominium developer is keenly focused on the construction and sale of the real estate asset and is less interested in the risk associated with long-term business operations. Even though the Officeminium™ does have an office management component, the objective of an Officeminium™ developer is to transition those responsibilities to the new Officeminium™ Association as soon as possible.

4.3 Case Study

4.3.1 The Property

General Description[23]

The Bartlett Building is located at the northwest corner of Fourth and Walnut Streets in Downtown Cincinnati. The original building was constructed in 1890 with an additional portion added in 1928. This building is a Class B Office building with gross square footage of 289,405 and a net rentable area of 223,672 square feet (this excludes 3,748 SF of storage space) on 18 floors. The average floor size is 14,000 SF and current occupancy is approximately 65%. The 18th floor is a mechanical floor. The first floor contains a large lobby area and a number of retail stores all of which have street frontage. There is a finished basement that once had a bank safe deposit department and vault. There is also a sub-basement with a boiler and other mechanical equipment.

The property is as well located as any Class B building in downtown Cincinnati and better located than most. It is in close proximity to a majority of downtown's Class A buildings. It is situated close to "The Banks" (the name used for prime development land on the Cincinnati Central Riverfront) and all of the proposed new riverfront development and to the National Underground Railroad Freedom Center that opened in the summer of 2004. It is only one block from Fountain Square which is an area where extensive planning and work is being done to improve its viability for retail and entertainment. Further, this building is on and connected to the fiber optic ring of Cincinnati Bell's MetroPLEX.

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[23] Colliers Turley Martin Tucker

The building was constructed in 1890. Bartlett purchased it in 1986. At that time a new roof structure and roof were placed on the building. Approximately six years ago, six quick response elevators were replaced for the high rise part of the building. Within the last four years, most of the cooling towers were replaced.

Area Overview[24]

Downtown Cincinnati has been experiencing some economic pressures, as have most downtowns of comparable cities in the Midwest. The office market has not grown in a number of years, primarily because of the mushrooming office growth in the suburbs. Downtown retail has been under great pressure because of the expansion of retail in the suburbs. With the formation of the Cincinnati Center City Development Corporation (3CDC), however, a public private partnership has been formed to help invigorate growth and development in the downtown area. 3CDC is concentrating on three areas – Fountain Square, The Banks and Over-The-Rhine. For Fountain Square, they have hired a national retail consultant to coordinate activities for an area a few blocks wide and long. This effort is being chaired by the former CEO of Federated Department Stores. All this bodes well fro the health of downtown.

In addition, much talent is coming together to obtain the funds necessary to get the riverfront development underway. The Forth Washington Way, part of the Interstate Highway System (Interstate I-71), was re-engineered and consequently narrowed by nearly 50%. In so doing, the development land was created. “The Banks” will have various attractions developed on top of garages. The garages will provide parking for attractions on the Riverfront and for the downtown office market. “The Banks” will have residential, office and retail uses. Paul Brown Stadium, home of the Cincinnati Bengals, was completed five years ago and anchors the west

[24] Colliers Turley Martin Tucker

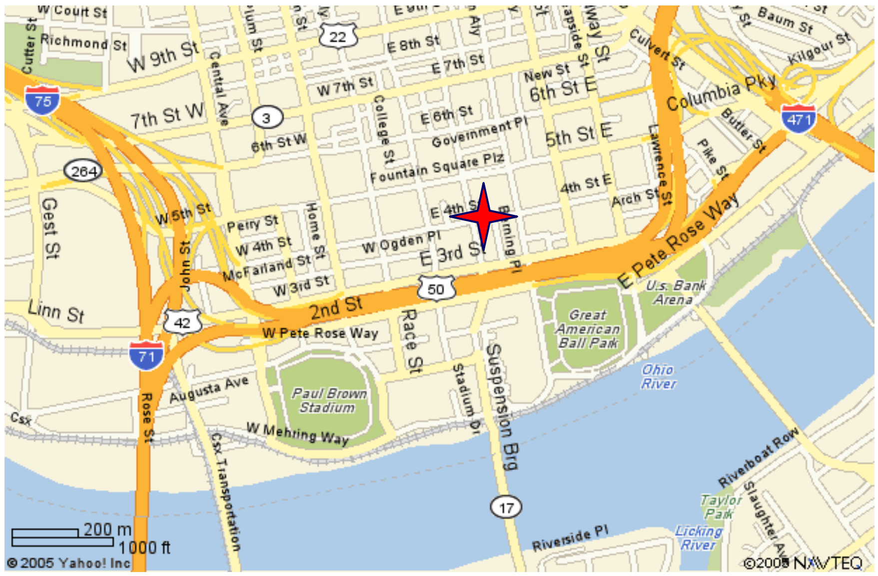
end of the new riverfront development area. The Great American Ballpark, new home of the Cincinnati reds, opened in 2003, and anchors the east end. A Reds' museum and Hall of Fame, adjacent to the Ballpark, is scheduled to open in 2004.

Another major attraction which opened in the summer of 2004, as part of "The Banks," is the National Underground Railroad Freedom Center. This is a museum and education center that is expected to draw from all over the world. On the riverfront in front of "The Banks," a 44 acre park will be constructed.

Finally, there has been strong commercial development along the riverfront across from downtown Cincinnati in northern Kentucky. Covington has seen the construction of four major office buildings, along with a Marriott and an Embassy Suites hotel and luxury condominiums. Newport has a $60 Million privately owned and operated Aquarium that opened six years ago. Connected to the Aquarium is Newport on the Levee, a 550,000 SF entertainment mall. It has a 20-screen cinema and a large variety of restaurants and retail shops. A 2000 car garage already exists to serve this project.

Between Newport on the Levee and the site where additional development will take place on the Cincinnati side of the Ohio River is the former L&N Bridge, now named the Purple People Bridge. This bridge has already become a very popular connection between Newport and the parks on the Cincinnati side of the river. A major residential and retail development is in the planning stages on the Cincinnati side of the river adjacent to the bridge.

Figure 10: Map of Downtown Cincinnati, Ohio



4.3.2 The Context

At nearly 35%, the vacancy in the building is higher than the current average vacancy of 12% in the Cincinnati CBD. The high level of vacancy is believed to be primarily attributed to the fact that the building has been for sale for over a year. In general, two corresponding challenges are typically found when a building of this magnitude is placed on the market. First, the current owners become somewhat disengaged as they are attempting to dispose of the asset. As such, leasing activities are not as aggressive and capital improvement projects and other building enhancements are put "on hold" that could have a positive impact on tenant satisfaction. The absence of these improvements and enhancements contributes to the hesitation to renew by existing tenants whose leases are shortly expiring. The second issue is the negative impact that ownership uncertainty creates in the market. When a building is placed on the market, and remains on the market for an extended period of time, potential new tenants (similar to renewal tenants) tend to take a "wait and see" posture.

Given the building's positive attributes and the stability of a new long-term owner there should be no significant challenges in increasing the building's occupancy to be more in-line with the current area average. An additional challenge which negatively impacts an immediate occupancy of the vacated space is that the building lacks on-site parking.

The absence of on-site parking would be a "death kneel" to a Class A office building which was hoping to achieve rent premiums, however, as Class B space, most perspective tenants assume that they will be forced to park off-site. In the case of the Bartlett Building there is a multitude of parking options within a 2 ½ block radius. If the building had on-site parking, it would not only be much easier to find large, suitable tenants to occupy the space because the building would have a competitive advantage over most other Class B space in the CBD. It is also because of the lack of on-site parking that hinders the building's conversion from office space to residential condominiums. The downtown Cincinnati luxury condominium market expects on-site parking to be associated with their units. Therefore, the lack of on-site parking would significantly depress the price at which residential units would be sold and as such, a residential condominium conversation could have a negative net present value (NPV).

Figure 11: Bartlett Building Floor Plan

4.3.3 The Redevelopment Strategy

Despite some of the contextual challenges, the Bartlett building is good candidate for the Officeminium™ because it has a prime location in the CBD, and has the grandeur and scale which should attract potential Officeminium™ owners. In addition, the Bartlett Building's occupancy level is lower than the area average, and as such, as opposed to sitting on that excess capacity, it could be converted to Officeminium™ space and sold.

The strength of the Officeminium™ business model is its flexibility in effortlessly scaling to address over capacity in the traditional leasing market. The Bartlett Building is a good candidate for this model. The sale of this space will not only increase activity in the building, but it will enhance the operating margins of the remaining leased space by reducing the overall carrying cost of the building and infusing new capital to share in the continued updating and maintenance of the building's façade and lobby.

The objective of the redevelopment should be to program one vacant floor (14,000 SF) as Officeminium™ space, renovate the lobby, enhance the façade and other common areas, and then aggressively market both the Officeminium™ and lease space. 14,000 SF is initially recommended because it represents one entire floor, which allows for a clean segmentation between the Officeminium™ and traditional lease tenants. In the event that the demand for Officeminium™ space is greater than the 14,000 SF initially programmed, then an additional floor could be made available to accommodate the additional demand. If the demand for the Officeminium™ space exceeds one floor, then multiple Officeminium™ Associations could be created. The Bartlett Building is well suited to accommodate additional segmentation, because each floor is legally deeded and titled as a separate condominium unit. Therefore, each floor that is programmed as Officeminium™ space would become an individual Officeminium™

Association that would be comprised of both individually deeded Officeminium™ spaces and common space which would be available to any Officeminium™ owner.

4.3.4 Market Analysis

Traditional Leasing Market

In their First Quarter 2005 market report, Collier's International characterized the Cincinnati office market slow, but steady. "Cincinnati's overall office market continued to remain healthy despite the uncertain direction of the economy…The outlook going forward is positive…"

CB Richard Ellis had a similar market outlook in the First Quarter 2005 report and noted that "Vacancy in the Cincinnati Central Business District decreased again this quarter from 12.17% to 12.01%, reflecting a positive absorption of 21,851 SF, and representing positive absorption for the fourth consecutive quarter.

Figure 12: Cincinnati Office Market Statistics

Market	Rentable Area	Vacancy Rate %	Net Absorption 1st Quarter 2005	YTD Absorption	Under Construction SF	Average Asking Lease Rate ($ SF/YR)
CBD Class A	6,783,148	9.02%	(5,985)	(5,985)	180,000	$21.90
CBD Class B	6,503,504	15.22%	27,836	27,836	----	$15.38
CBD Class C	377,240	10.53%	----	----	----	$10.74
CBD Total	*13,663,892*	*12.01%*	*21,851*	*21,851*	*180,000*	*$18.49*

Source: "*MarketView: Cincinnati Downtown Office, First Quarter 2005,*" CB Richard Ellis

Based on the absorption from the first quarter of the year, all of which is attributed to Class B office, if the current positive absorption trend continues, the Bartlett Building could reasonably achieve 85% occupancy within 12 months.

Officeminium™ Market

Based on the latest available census data, the Cincinnati Metropolitan Statistical Area (MSA), which includes parts of Northern Kentucky and Southeast Indiana; there are over 27,000 established businesses with 1-9 employees – 70% of which have only 1-4 employees. The target demographic for Officeminium™ space has an identifiable market size of over 3,494 established businesses in Hamilton County alone.[25] (Cincinnati is part of Hamilton County).   In addition, there are over 111,000 non-employer[26] establishments, may of which could also be candidates of Officeminium™ space.

Given that the Officeminium™ is a new product, there is no existing current or historical absorption (sales) data; however, the notion of small businesses and sole proprietors purchasing no/self service office condominiums is increasingly becoming more popular. This increased popularity provides further evidence that some small businesses and sole proprietors are recognizing the value of ownership tenure. Traditional office condominiums (with no shared administrative or infrastructure services provided) are trading from anywhere between $90-180

[25] Based on data provided by the US Department of Commerce and the US Census Bureau. Target demographic is comprised of businesses with 1-4 employees and registered in the following industries: Educational Services, Finance and Insurance, Information, Management of Companies and Enterprises, Professional, Scientific and Technical Services and Real Estate

[26] A nonemployer business is one that has no paid employees, has annual business receipts of $1,000 or more ($1 or more in the construction industries), and is subject to federal income taxes. Most nonemployers are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner's principal source of income.

per SF, depending on location (which is primarily suburban) and the availability of deeded parking. While the Cincinnati OBCs range in price from $800-1300 per month for approximately 300 SF of office space (an annualized cost of $32-52 per SF).

4.3.5 Financial Pro Forma

4.3.5.1 Financial Pro Forma Summary

The following pro forma represents the projected cash flows based on the primary redevelopment strategy to program one floor (approximately 14,000 SF) of Officeminium™ space, renovate the lobby, enhance the façade and other common areas, and aggressively marketing the building to increase the occupancy level of traditional lease tenants. This pro forma has been developed as an analytical tool for a potential purchaser of the property (to evidence the value of the Officeminium™ model to a building owner or developer) and forecasts 11 years of cash flows under three scenarios: (1) baseline – traditional lease of existing space; (2) Officeminium™ (expected) – conversion of 14,000 SF (one floor) into Officeminium™ space which is absorbed over three years; and (3) Officeminium™ (pessimistic) – conversion of 14,000 SF (one floor) into Officeminium™ space which is absorbed over nine years. The pro forma does not assume that a new owner will be able to create any additional operating efficiencies nor will they be able to increase the average rental rate above the current average rental rate. Rental rates and expenses are also assumed to grow at 3% per year.

In both Officeminium™ scenarios, the Total Bid Price is higher than that of the Baseline scenario. Even though the Hard and Soft Development Costs the Discount Rates are higher for the Officeminium™ scenarios, a potential Officeminium™ developer should be willing to outbid a purchaser interested in following a traditional leasing model.

The primary drivers for the increased willingness to pay under the Officeminium™ scenarios are the increased revenue generated by the Officeminium™ sales and the decreased operating expenses to the new building owner. Holding rental rates (and rent rate growth expectations constant across scenarios) the Officeminium™ scenarios have higher revenue than the Baseline scenario because of the additional revenue stream created by the Officeminium™

sales. The operating expenses decrease under the Officeminium™ scenarios because the Officeminium™ Association bears their pro rata share of the overall building operating expenses. As evidenced by higher Year 11 NOIs, the reduction in annual operating expenses under the Officeminium™ scenarios yields a higher reversion value with outbound capitalization rates which are uniform across scenarios.

Figure 13: Financial Pro Forma Summary

	Baseline	Officeminium™ (expected)	Officeminium™ (pessimistic)
Year 1 NOI	($184)	$410	($184)
Year 11 NOI	$597	$768	$616
Hard & Soft Development Costs	$706	$1,264	$1,264
Discount rate	8%	9%	9%
Reversion Value/Year 11 Sales Price	$7,024	$9,025	$7,246
Present Value	$4,933	$7,455	$5,762
Total Bid Price	$4,187	$6,151	$4,468

NOTE: The detailed assumptions underlying these pro forma are provided in the next section

Though not specifically modeled, re-programming the space as office condominiums would not be as valuable. Given the Bartlett Building's CBD location, and lack of parking, the demand for office condominiums would potentially be lower because the typical office condominium owner is a medical service provider. In a city like Manhattan, where many medical service providers have CBD locations, the analysis could yield different results, however, in Cincinnati, the usage pattern for medical service providers do not favor CBD locations.

The space could be re-programmed as an OBC, however, that use would only be applicable for a developer who was also interested in being a long-term operator of OBC space, which requires a significant emphasis on ongoing office as well as building management. An OBC operation is a more active activity, and this example assumes a typical developer who is interested in a less active income stream. A temporary OBC use would be advised to generate revenue and activity, while the Officeminium™ units are being marketed and sold; however, as a long-term solution, OBC use would generally only be selected by traditional OBC operators.

4.3.5.2 Financial Pro Forma Detail

Figure 14: Baseline Pro Forma

Numbers in (000s)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Rental Income		$1,987	$2,256	$2,539	$2,837	$2,922	$3,009	$3,100	$3,193	$3,288	$3,387	$3,489
Gross Rental Revenue		$1,987	$2,256	$2,539	$2,837	$2,922	$3,009	$3,100	$3,193	$3,288	$3,387	$3,489
Less 5% default risk		($99)	($113)	($127)	($142)	($146)	($150)	($155)	($160)	($164)	($169)	($174)
Effective Gross Income		$1,888	$2,143	$2,412	$2,695	$2,776	$2,859	$2,945	$3,033	$3,124	$3,218	$3,314
Less Operating Expenses/Property Taxes		($2,022)	($2,082)	($2,145)	($2,209)	($2,275)	($2,344)	($2,414)	($2,486)	($2,561)	($2,638)	($2,717)
Net Operating Income		($134)	$61	$267	$486	$500	$515	$531	$547	$563	$580	$597
Less Capital Reserve Funding		($50)	($51)	($53)	($54)	($56)	($58)	($59)	($61)	($63)	($65)	
Due Diligence Fees	($40)											
Purchase/Residual											$6,457	
Property Before-Tax Cash Flow	($4,933)	**($184)**	**$10**	**$214**	**$432**	**$444**	**$458**	**$472**	**$486**	**$500**	**$6,972**	

Present Value (PV)	$4,933
Less: Due Dilligence	($40)
Less: Hard & Soft Development Costs	($706)
Total Bid Price	**$4,187**

Sale price calculation:	
Year 11 NOI	$597
Capitalization rate	8.50%
Sale price	$7,024
Less Cost of Sale	($562)
Residual Value	$6,462
Sale Year	10

Discount Rate	
Risk Free Rate	4.10%
Risk Premium	3.90%
Discount Rate	8.00%

Figure 15: Officeminium™ Pro Forma (expected)

Numbers in (000s)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Rental Income		$1,987	$2,256	$2,539	$2,837	$2,922	$3,009	$3,100	$3,193	$3,288	$3,387	$3,489
Officeminium Sales		$566	$566	$566	$0	$0	$0	$0	$0	$0	$0	$0
Gross Rental Revenue		$2,553	$2,822	$3,105	$2,837	$2,922	$3,009	$3,100	$3,193	$3,288	$3,387	$3,489
Less 5% default risk		($99)	($113)	($127)	($142)	($146)	($150)	($155)	($160)	($164)	($169)	($174)
Effective Gross Income		$2,454	$2,709	$2,978	$2,695	$2,776	$2,859	$2,945	$3,033	$3,124	$3,218	$3,314
Less Operating Expenses/Property Taxes		($1,979)	($1,995)	($2,010)	($2,071)	($2,133)	($2,197)	($2,263)	($2,331)	($2,401)	($2,473)	($2,547)
Net Operating Income		$475	$714	$967	$624	$643	$662	$682	$702	$723	$745	$768
Less Capital Reserve Funding		($64)	($66)	($68)	($70)	($72)	($74)	($76)	($79)	($81)	($83)	
Due Diligence Fees	($40)											
Purchase/Residual											$8,298	
Property Before-Tax Cash Flow	($6,151)	**$410**	**$648**	**$900**	**$554**	**$571**	**$588**	**$606**	**$624**	**$643**	**$8,959**	

Present Value (PV)	$7,455
Less: Due Dilligence	($40)
Less: Hard & Soft Development Costs	($1,264)
Total Bid Price	**$6,151**

Sale price calculation:	
Year 11 NOI	$768
Capitalization rate	8.50%
Sale price	$9,025
Less Cost of Sale	($722)
Residual Value	$8,303
Sale Year	10

Discount Rate	
Risk Free Rate	4.10%
Risk Premium	4.90%
Discount Rate	9.00%

Figure 16: Officeminium™ Pro Forma (pessimistic)

Numbers in (000s)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Rental Income		$1,987	$2,256	$2,539	$2,837	$2,922	$3,009	$3,100	$3,193	$3,288	$3,387	$3,489
Officeminium Sales		$0	$189	$189	$189	$189	$189	$189	$189	$189	$189	$0
Gross Rental Revenue		$1,987	$2,444	$2,727	$3,025	$3,110	$3,198	$3,288	$3,381	$3,477	$3,576	$3,489
Less 5% default risk		($99)	($113)	($127)	($142)	($146)	($150)	($155)	($160)	($164)	($169)	($174)
Effective Gross Income		$1,888	$2,332	$2,600	$2,883	$2,964	$3,048	$3,133	$3,222	$3,313	$3,406	$3,314
Less Operating Expenses/Property Taxes		($2,022)	($2,068)	($2,130)	($2,194)	($2,259)	($2,327)	($2,397)	($2,469)	($2,543)	($2,619)	($2,698)
Net Operating Income		-$134	$264	$471	$690	$705	$720	$736	$753	$770	$787	$616
Less Capital Reserve Funding		($50)	($51)	($53)	($54)	($56)	($58)	($59)	($61)	($63)	($65)	
Due Diligence Fees	($40)											
Purchase/Residual											$6,662	
Property Before-Tax Cash Flow	($4,458)	**-$184**	**$213**	**$418**	**$636**	**$649**	**$663**	**$677**	**$692**	**$707**	**$7,384**	

Present Value (PV)	$5,762
Less: Due Dilligence	($40)
Less: Hard & Soft Development Costs	($1,264)
Total Bid Price	**$4,458**

Sale price calculation:	
Year 11 NOI	$616
Capitalization rate	8.50%
Sale price	$7,246
Less Cost of Sale	($580)
Residual Value	$6,667
Sale Year	10

Discount Rate	
Risk Free Rate	4.10%
Risk Premium	4.90%
Discount Rate	9.00%

Figure 17: Pro Forma Assumptions

Element	Baseline	Officeminium*™	Rationale
Rental Income	$13.34/SF	$13.34/SF	Based on current ACTUAL average rental rate
Officeminium™ Sales Price	N/A	$121.58/SF	Given that the Officeminium™ is literally an OBC with an ownership tenure, the price for the Officeminium™ was derived by taking an OBC rate of $36.50/SF, growing that rate at 3%/YR for five years and discounting back to a present value calculation of $149.99/SF at 9%. The $149.99 was then reduced by $20.64/SF which represents the anticipated annual cost for both the pro rata share of building expenses (based on current ACTUAL costs) and the provision of the set of standard Officeminium™ services (e.g. IT/data, telecom, reception, etc…). This value of $129.34/SF is the expected price at which the Officeminium™ would trade. For purposes of the pro forma, a price of 121.58/SF was used to forecast the value of the Officeminium™ sales because this amount represents the expected value at which the Officeminium™ will trade <u>less</u> a 6% estimated real estate brokerage sales commission.
Default Risk	5%	5%	Assumes that there will be some rent payment default.
Operating Expense/Taxes	$9.07/SF	$9.07/SF	Based on current ACTUAL average operating expenses/taxes
Capital Reserve Funding	2.5%	2.5%	Based on the current condition of the building
Due Diligence	$40,000	$40,000	Estimated based on conversations with local commercial real estate brokers
Hard & Soft Development Costs	$706,000	$1,264,000	Estimated based on current local construction costs per square foot. The Officeminium™ space is more expensive to develop because of the additional build-out required
Discount Rate	8%	9%	8% discount rate for the baseline scenario is based on current market estimates for similar properties. Additional 100 basis points was added to the Officeminium™ scenarios based on the additional risk premium associated with the sale of a product which has been untested in the market. The discount rates were estimated based on discussions with providers of commercial mortgage debt

Element	Baseline	Officeminium*™	Rationale
Outbound Capitalization Rate	8.5%	8.5%	Based on discussions with providers of commercial mortgage debt. The outbound capitalization rates are identical for the Baseline and Officeminium™ scenarios because at the time of sale (Year 11), all of the Officeminium™ space would have been sold, and therefore, the new buyer would be evaluating the property based strictly on the risk of the stream of rental income cash flows
SF Available for Rental	223,672	209,672	Based on actual building size. Under the Officeminium™ scenarios the rentable area is reduced by 14,000 SF which will belong to the Officeminium™ Association
SF for Officeminium	N/A	14,000	Based on an estimated development of one floor of Officeminium™ space. One floor was estimated because it allows for a clean segmentation of the Officeminium™ space from the remainder of the lease tenants
Rental rate growth rate	3%/YR	3%/YR	Assumes that a 3% annual increase (estimated rate of inflation) is built into tenant lease agreements
Operating Expense/Taxes growth rate	3%/YR	3%/YR	Assumes that expenses and taxes will grow at an estimated rate of inflation at 3% per year

* *The difference between the expected and pessimistic scenarios is that under the expected scenario, Officeminium™ sales are equally distributed over three years, while under the pessimistic scenario they are distributed over nine years.*

Figure 18: Estimated Redevelopment Costs

Line Item	Line Item Cost	Cost Per Renovated SF	% of Total Costs
Hard Costs			
Building Renovations	$420,000	$30.00	4.8%
Officeminium™ Build-Out	$490,000	$35.00	5.6%
Contingency	$46,000	$3.29	0.5%
Total Hard Costs	$956,000	$68.29	10.9%
Soft Costs			
Architectural & Engineering	$48,000	$3.43	0.5%
Legal & Accounting	$50,000	$3.57	0.6%
Insurance	$15,000	$1.07	0.2%
Miscellaneous/Contingency	$23,000	$1.64	0.3%
SG&A	$172,000	$12.29	2.0%
Total Soft Costs	$308,000	$22.00	3.5%
TOTAL HARD AND SOFT COSTS	$1,264,000	$90.29	100%

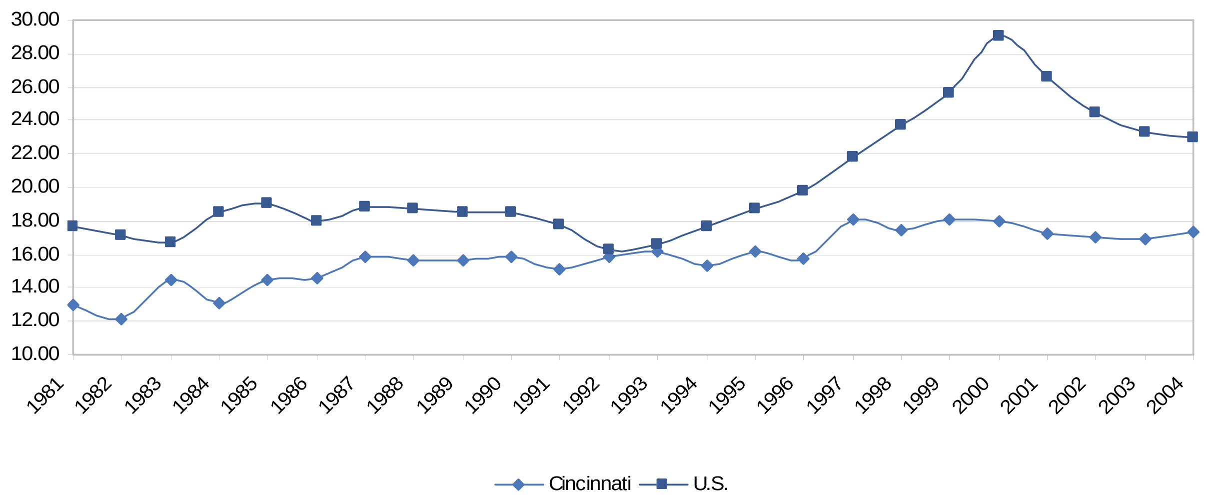
4.3.6 Conclusion

The Bartlett Building is an example of a building, currently available for sale. If partially programmed as Officeminium™ space, the Bartlett Building could create additional value for it new building owners and/or developer. The Bartlett Building is a good candidate for Officeminium™ programming because: (1) it has the characteristics that would appeal to the Officeminium™ demographic (i.e. CBD location, grandeur, and "high-brow" reputation); (2) given the potential demand in the Cincinnati market (a demand set of over 3,400), programming one floor as Officeminium™ space would increase the value of the building, despite the fact that the net rentable area would be reduced; and (3) even though the hard and soft development costs would be higher, given the current OBC rental rates in the Cincinnati market, the Officeminium™ units should trade at an amount that creates a positive cash flow for the building in Year 1 (assuming the expected scenario).

OBC rental rate volatility mirrors that of traditional office space volatility.[27] Historically, rental rates in the Cincinnati office market are less volatile than the average national average (see Figure 10), this is in large part due to the nature of the dominance of consumer products businesses which are located in Cincinnati. Despite the fairly limited rental rate volatility, existing tenure choice theories would still suggest that given a lengthy time horizon, small businesses and sole proprietors would chose ownership over renting. "…the net effect of rent risk [rate volatility] on the demand for homeownership [office space ownership] increases with a households [business owners] expected length of stay…"[28]

[27] Office Business Center Industry Association
[28] Sinai, Todd and Souleles, Nicholas, "Owner-Occupied Housing As a Hedge Against Rent Risk," National Bureau of Economic Research, Working Paper 9462, 2003.

Figure 19: Cincinnati vs. US Average Office Market Rents (1981-2004)[29]



In addition, the small business or sole proprietorship eliminates opportunistic agency upon purchasing an Officeminium™ because there is no longer a landlord or building manager who could adversely affect the value of the business through leveraging the small business or sole proprietors specialized space requirement or high capital investment in sensitive equipment that is potential expensive to move and/or quickly and accurately calibrate upon arrival at a new location.

The Bartlett Building's superior location and impressive presence make it a strong candidate for the market introduction of the Officeminium™ product. By leveraging the building's strengths, making a modest capital investment and embracing new models of office tenure, re-development of the Bartlett Building could enhance the buildings reversion value by hundreds of thousands (potentially millions) of dollars because while the rental income would remain the same (unless above average occupancy is assumed), the operating costs would

[29] Torto Wheaton Research

decrease and as such, the net operating income (NOI) would be higher, thereby yielding a higher reversion value (with uniform outbound capitalization rate assumptions).

5 GOVERNANCE

The Officeminium™ governance model should use the office condominium model as a base, but because of the voting power afforded the owner of the remainder of the building, must make allowances for decisions to be made with all ownership interests represented and not unilaterally by the owner(s) of the remainder of the building.

The condominium association model has been tried, tested and found to be successful; however, "…unit owners who sought ownership of their spaces in order to obtain the economies of scale resulting from sharing a common structure and grounds discover that this benefit is offset by the difficulties of administering the common property with fellow owners…the problems of condominium governance are summarized as follows:

- Aging and deferred maintenance: As properties age, there is an increasing need to refurbish and modernize. Expenditures for this purpose result in deficits in current operating budgets and disagreements among members as to how to improve the property and how much to assess members for the cost.
- Demographic trends and condominium strains: Condominiums are owned by progressively heterogeneous mixtures of households [and businesses] with different needs, goals and financial resources.
- Planning, voting, and implementation: Association governance has been modeled after corporate governance and establishes minority-rule with no provision for the needs or rights of minorities.
- Management and power: The need for competent management has placed the condominium's resources and decision-making power in the association-management group.

This power can be exploited, and issues of equity and conflicts of fiduciary duty emerge when there is conflict between majority and minority interests.

- Lien and alienation peril: The association may force collection of voted expenditures by exercising lien fights. Foreclosure of lien rights is a harsh remedy and may lead to the loss of the unit owners' real estate asset.
- Disparity of Return on Investment (ROI): Speculator-developers who buy up multiple units at distressed prices in order to control an association get extra leverage benefits because they have the power to appropriate the funds of dissenting minority owners through the governance process. They augment their return on investment (through minimizing their outlay) at the expense of the overruled minority."[30]

In addition to the governance challenges associated with traditional condominium ownership, there are other issues which will be faced by Officeminium™ owners because they both internal challenges to manage within the Officeminium™ association, in addition to those associates with managing the relationship with the other owner(s) of the remainder of the building where the OfficeminiumTM association is located: (1) pricing and management of regularly consumed resources (e.g. printer and fax paper and toner and other office supplies) (2) scheduling and regulation of conference and team rooms and (3) influencing and impacting decisions which affect the entire building (majority rule and minority rights).

The fundamental challenge underlying condominium (and Officeminium™) governance is the ability of the minority interest to have a greater voice than is normally afforded them in a majority rule system.

[30] Major, John B., "Problems of Condominium Governance," Real Estate Review, Winter 1992, Vol. 21 Issue 4.

In the case of the Officeminium™, the problem becomes even more pronounced because the Officeminium™ owners, collectively, have a minority interest in the overall building where their units are located. Under a traditional majority-rule governance model, the owner(s) of the remainder of the building could consistently impose their will on the Officeminium™ owners.

One recommended method for addressing this issue of majority dominance would be to create a Building Governance Board (BGB). The BGB could be comprised of representation from all owner groups regardless of ownership interest, with a Chairman who is elected based on traditional majority-rule principles. The BGB would be the governing body which made decision which impacted all of the ownership interest of the building. Voting on the BGB could be established as one-member, one-vote, with the Chairman voting only in the case of a tie. Additionally, provisos could be established which would require a super-majority for certain issues which meet or exceed some threshold criteria (e.g. remedy of deferred maintenance which exceed some threshold dollar amount). Other powers, responsibilities and governance rules should be established which acknowledge the need for and importance of the majority owners to have greater control than the minority owners, but not so much control as to totally overlook or negate the needs or concerns of the minority. Similar provisions have been provided in the governance structure of the United State Senate with the filibuster and other governance mechanisms which require some level of concurrence by the minority, though ultimately, the majority party still has the greatest influence in the decision making process.

6 CONCLUSION

The viability of the Officeminium™ concept is evidenced by the following line of reasoning: (1) small businesses and sole proprietorships who are in the professional services industries can be segmented into two categories: medical service providers and non-medical service providers; (2) tenure choice theory would suggest that some users of office space choose an ownership tenure as a way to hedge against two forms of rent risk – rate volatility and opportunistic agency; (3) office condominiums are an example of ownership tenure in the market for office space; (4) the majority of the owners of office condominiums (65%) are medical service providers; (5) office condominiums are a growing real estate product, they are observable in the market, and are proof that some small businesses and sole proprietorships are willing to consider ownership tenure for their office space, potentially, as a hedge against rent risk and opportunistic agency; (6) many non-medical service providers use OBCs instead of traditional leased space; (7) current and potential users of OBCs could want to employ the same hedge against rent risk – both rate volatility and opportunistic agency as users of traditional office space; (8) therefore, the Officeminium™ would be the product, that, if available, would be the office condominium equivalent choice for those users of OBCs who were interested in hedging rent risk; (9) Finally, the Officeminium™ is more than just a way to reduce excess building capacity. In a real estate asset like the Bartlett Building, the Officeminium™ can create surplus value above that of a traditional office lease model.

Despite the strengths of the tenure theory arguments, not all users of office space, regardless of their specific circumstance, will choose ownership over leasing. There are, however, subsets of small businesses and sole proprietors who will choose ownership based on its real and perceived benefits. By following the same logical arguments which have created an observable market for office condominium space, one can surmise that there would be real market demand for the Officeminium™ product by those users of office space who prefer the OBC model over traditional leased space and are interested in ownership tenure. The true viability of the Officeminium™ will ultimately be determined by the market demand for the product by office space users and the market supply of the product by developers and building owners.

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