

January 3, 2014

To: Joint Legislative Economic Outlook  
and Revenue Assessment Committee

From: Geoffrey M. Wardle, VP Development/General Counsel, Gardner Company

**Written Testimony to the Joint Legislative Economic Outlook  
and Revenue Assessment Committee Regarding the Commercial Real  
Estate Market in Idaho for 2014-2015**

I am Geoffrey Wardle, VP Development and General Counsel for Gardner Company. I have served as the President of BOMA Boise, the association of owners and managers of commercial buildings in the Treasure Valley. I have served as the BOMA Pacific Northwest regional president, and am presently concluding a term as the government affairs chair for BOMA Boise.

Professionally, I am an attorney who has represented commercial owners and managers throughout the western United States. I joined Gardner Company earlier this year. In my current position I am responsible for management and development of a variety of product types in our portfolio throughout Idaho and Utah. We focus on commercial office, medical, technology, industrial, and retail development. Our newest Class A office building, 8<sup>th</sup> & Main, opens this month here in Boise. In December we celebrated the opening of our 90,000 square foot medical office building in Caldwell, at West Valley Medical Center.

I would like to thank Scott Morris, the Director of State and Local Affairs from BOMA International for the national information, and Colliers International for its local market information on Idaho,<sup>1</sup> in preparation of my comments to the Committee today.

In a service oriented economy, office buildings, medical clinics, and retail stores are the new factory floor. In evaluating commercial real estate, there are a few things to consider that are somewhat different than residential real estate.

Initially, growth in commercial real estate is a lagging economic indicator. Commercial real estate typically trails the rate of growth in the residential housing market,

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<sup>1</sup> Colliers International's Idaho market specific research can be found at: <http://www.colliers.com/en-us/boise/insights/research>

particularly in the retail market. Additionally, commercial real estate typically trails the rate of job growth, particularly in the office and industrial markets. Sustained growth in housing starts will later produce retail development, while sustained growth in jobs will later produce office and industrial development.

Commercial vacancies increased significantly during the recession. It has taken a long time to absorb the vacancy caused by the recession. However, in 2013 we saw vacancy rates decline in a material manner, although we have not yet seen significant increases in rents. In fact, throughout 2013 office rents in Ada and Canyon counties continued to decline.

As noted in Colliers International's Third Quarter Review of the commercial real estate market in the Treasure Valley, we are not seeing any new speculative development in this market except in the Downtown Boise core. That is because office lease rates and sale valuations have not increased to the point in these markets that developers and lenders can make the case for speculative commercial development, especially in the office market. Vacancy rates have declined as absorption of existing office space has increased. The result is that we will likely see significant rent rate increases in the office market for the first time in five years throughout the Treasure Valley in 2014 and into 2015.

In the retail and industrial markets, however, the vacancy rates are somewhat lower than for office and rents have shown some upward movement during 2013. This is likely to increase within the next two years. It is important to recognize however that there is a significant amount of retail and industrial space in Idaho that is obsolete and that will need to be repurposed or redeveloped. For the demolition or repurposing of obsolete space throughout the State of Idaho, the retail and industrial vacancy numbers would not be as well as they presently are.

Moreover, the commercial real estate industry is not just construction and development. Unlike the residential market, there is a significant portion of the economy related to commercial real estate that is directly related to the services associated with managing and operating commercial buildings.

BOMA International studies the impact of commercial real estate management and operation on the American economy in a report entitled, "Where America Goes to Work: The Contribution of Office Building Operations to the Economy, 2012."<sup>2</sup> The next edition of this study will be released in the first half of 2014. We anticipate that with the strengthening of the industry, the 2014 study will show increased economic benefits from the commercial real estate management sector. The 2012 study indicated that there are

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<sup>2</sup> "Where America Goes to Work: The Contribution of Office Building Operations to the Economy, 2012" is available from BOMA International as a pdf at the following address:  
[http://www.boma.org/industry-issues/state-local-issues/Documents/2011\\_BOMA\\_Econ\\_Impct\\_FINAL%20Proof%20for%20print.pdf](http://www.boma.org/industry-issues/state-local-issues/Documents/2011_BOMA_Econ_Impct_FINAL%20Proof%20for%20print.pdf)

significant multiplier effects in the operation of commercial real estate.

Nationally, we see that for every \$100,000 spent on commercial building operations there are 1.96 jobs generated directly in the industry. What does this mean for wages? For every \$1.00 spent on commercial building operations, there is an increase in \$0.76 in personal income. Operating and managing buildings is a labor intensive business. While much of the operating expense goes to things like utilities and insurance, the reality is that employees are needed to manage and operate these structures. Ultimately, the impact that operating and managing commercial real estate has on gross domestic product is substantial. For every \$1.00 spent on commercial building operations, there is an increase in GDP of \$2.57.

What does this mean for Idaho? The management and operation of commercial real estate in the state of Idaho support approximately 9,221 direct and indirect jobs. These are the employees managing and operating these buildings. This is in addition to the customers, tenants, and owners that actually occupying commercial buildings themselves.

What do we see for the next two years?

First, one of the biggest issues facing businesses is the availability of appropriate space for their operations. As seen in the Magic Valley with Chobani, Frulact, and Cliff Bar, there is not readily available industrial space that can be repurposed and reused. There will continue to be a need for new industrial development because existing industrial space in the state is too specialized, too small, too old, or in the wrong location.

Second, companies have started to expand again or are planning for expansion. Growth necessitates both relocation to larger space and more efficiently utilizing space. We have seen professional services and retail tenants become more efficient in their utilization of real property. As they expand, they are looking for space that permits them to be flexible and function at a higher density than they historically have prior to the recession. They are still looking for the ability to quickly shed space if the economy were to turn south again.

Third, we cannot underestimate the impact that the internet is having on retailers and retail sales. Internet sales offer lower prices and frequently the lack of sales tax collection at the point of sale. As such, main street retailers are struggling and have not come back into the market. The result is the repurposing of former retail space for other purposes, which takes time and capital. The loss of traditional retail sales adversely affects retailers and the owners of buildings that are leased to them.

Fourth, cap rates will continue to decline even though interest rates will increase. In light of the tapering of QE3, interest rates will increase, but that increase will be gradual. There is too much capital looking for too few places to invest to have any other result.

Because commercial real estate is typically financed on five to ten year terms, material changes in either cap rates or interest rates have a significant impact on the owners of commercial buildings.

Fifth, the availability of appropriately skilled operations employees for commercial buildings is becoming a significant issue. People do not understand the need for skilled professional and trade employees to operate and manage commercial buildings. Anecdotally, our company hired three new property managers and four new building engineers this last year as we increased the amount of property we owned in Idaho by nearly 750,000 square feet in 2013. To fill these positions we found that we had to either recruit employees from outside of the market or we had to recruit and retrain employees who had no commercial real estate experience. The recession has caused a lot of people to leave the industry and created a significant skills gap that will take years to address.

In conclusion, we anticipate moderate growth in the commercial real estate market over the next 18 months. We are starting to see a return to prerecession conditions in the commercial market. Financing is becoming more readily available on terms that are comparable to what was seen in the early 2000's. We anticipate a measured return of the real estate and construction industries to their historic averages as part of Idaho's economy prior to the bubble.

We are cautiously optimistic that the commercial real estate market will continue to expand in Idaho in 2014 and 2015. There clearly is demand in key markets in the State for technology and industrial space. Health care continues to transform and with an aging population, we will continue to see health care expansion throughout the state.

Most of the vacancy caused by the recession has been absorbed. If job growth increases significantly, there will be in the short term a spike in rents due to the paucity of suitable space. With continued population growth we will continue to see new retail development gradually occur trailing residential development.

Sincerely,



Geoffrey M. Wardle  
VP Development/General Counsel  
Gardner Company

Attachments

# Where America Goes to Work

New Study Shows Buildings' Operations Contribute \$205 Billion to GDP; Support 3.8 Million Jobs

By Stephanie Oppenheimer, APR and Laura Horsley

The commercial real estate industry plays a significant role in the U.S. economy. This may seem most obvious during the construction phase, as cranes dot the horizon, workers scramble across scaffolding and trucks deliver a seemingly endless stream of equipment and supplies. But the far larger—and longer-lasting—impact actually comes after the ribbon cutting, when the significant annual operating expenses associated with office buildings help support the local economy's vitality, create new jobs, generate personal income and contribute to the local tax base year after year.

BOMA International's new economic impact study, *Where America Goes to Work: The Contribution of Office Building Operations to the Economy, 2012*, details the impact of commercial office space on the national and local economies. The report, an updated version of a study first published in 2009, shows that the short- and long-term expenditures that sustain office building operations—management, maintenance, repairs, building services and utilities—generate significant, continuous and growing expenditures that support local businesses, create job demand and contribute significantly to U.S. gross domestic product (GDP).

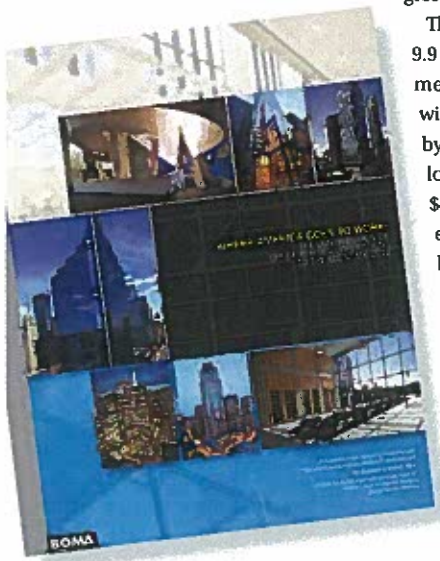
The 2012 study finds that the 9.9 billion square feet of commercial office space located within the 94 markets served by BOMA International's 93 local associations generated \$80 billion in direct operating expenditures in 2011 to the benefit of workers and businesses within their host jurisdictions—enough to build 1 World Trade Center 20 times over.

The results of the *Where America Goes to Work* study were announced during a press conference on June 25 in Seattle

during BOMA International's annual conference. The author of the report, Stephen S. Fuller, Ph.D., Dwight Schar faculty chair and University Professor, and director, Center for Regional Analysis, George Mason University, delivered the results. Key findings included:

- For each dollar spent on office building operations, the national economy gained \$2.57, with the result that \$79.7 billion in annual operating expenditures contributed a total of \$205.1 billion to the gross domestic product (GDP) in 2011—equivalent to the state of California's annual budget;
- For each dollar spent on office building operations, workers in the United States realized an increase of \$0.76 in personal earnings, generating a total of \$61 billion in new earnings for workers residing within these 94 office market areas and respective state economies in 2011;
- For each \$1 million in expenditures for office building operations, 19.6 jobs were supported nationwide. As a result, \$79.7 billion in annual operating expenditures supported a total of 1.6 million indirect jobs across all sectors of the national economy in 2011—about the same number employed by McDonald's worldwide—in addition to an estimated 2.2 million more jobs directly related to the on-site management and operations of the buildings; and
- The 9.9 billion square feet of commercial and government-owned office space located in the 94 markets served by BOMA's 93 local

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Dr. Steven Fuller delivers the results of *Where America Goes to Work* during a press conference in Seattle.

associations provided workspace for an estimated 44.3 million office jobs.

"When you also consider the secondary benefits resulting from how the money generated by building operations is spent and re-spent, the true impact to local, state and national economies is very significant," said Fuller. "Whether a tenant supports an in-building dry cleaner, hails a taxi, takes a business associate to lunch at a nearby restaurant or grabs a soda from a sidewalk vendor, it all goes toward supporting significant job growth directly and indirectly, and helps generate new personal earnings that further stimulates the economy."

2011-2012 BOMA International Chair Boyd Zoccola noted, "The study reveals just how significant a role the commercial real estate industry, and office building operations in particular, has on the U.S. economy. The annual operating expenses associated with office buildings help support local economies by creating new jobs, generating personal income and contributing to the local tax base."

During the press conference, Fuller gave reporters a big picture perspective of the significance that building operations have on the greater economic engine, explaining that the 9.9 billion square feet of office space represented across 94 markets houses 44.3 million workers. On average, each of these office workers contributed \$116,200 to GDP; and, all together, these office workers contributed a total of \$5.15 trillion to U.S. GDP.

*The analysis included all office buildings—inclusive of tenant-occupied buildings, buildings owned by their occupants and government-owned office buildings. The report also drills into the economic impact of office building operations in the 94 markets served by BOMA International's 93 local associations.*

## Market by Market

### *The Impact of Building Operations on Five BOMA Local Association Markets*

#### **Seattle-King County Metropolitan Areas**

|                               |               |
|-------------------------------|---------------|
| Direct Operating Expenditures | \$1.1 billion |
| Contribution to U.S. Economy  | \$1.9 billion |
| New Personal Earnings         | \$596 million |
| Direct Jobs Supported         | 31,102        |
| Indirect Jobs Supported       | 15,557        |

#### **Indianapolis**

|                               |               |
|-------------------------------|---------------|
| Direct Operating Expenditures | \$570 million |
| Contribution to U.S. Economy  | \$1.2 billion |
| New Personal Earnings         | \$375 million |
| Direct Jobs Supported         | 15,919        |
| Indirect Jobs Supported       | 10,845        |

#### **Los Angeles**

|                               |               |
|-------------------------------|---------------|
| Direct Operating Expenditures | \$3.4 billion |
| Contribution to U.S. Economy  | \$7.1 billion |
| New Personal Earnings         | \$2.2 billion |
| Direct Jobs Supported         | 96,226        |
| Indirect Jobs Supported       | 52,236        |

#### **Washington, D.C. Metropolitan Area**

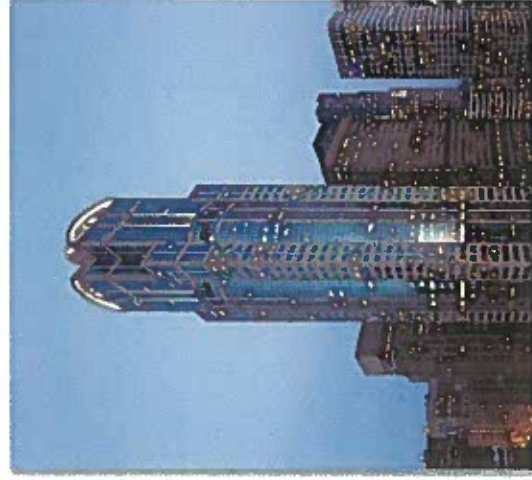
|                               |               |
|-------------------------------|---------------|
| Direct Operating Expenditures | \$4.2 billion |
| Contribution to U.S. Economy  | \$7.5 billion |
| New Personal Earnings         | \$2.4 billion |
| Direct Jobs Supported         | 100,321       |
| Indirect Jobs Supported       | 61,923        |

#### **Raleigh-Durham Metropolitan Area**

|                               |               |
|-------------------------------|---------------|
| Direct Operating Expenditures | \$259 million |
| Contribution to U.S. Economy  | \$502 million |
| New Personal Earnings         | \$150 million |
| Direct Jobs Supported         | 7,246         |
| Indirect Jobs Supported       | 4,506         |

*Download the report for free at [www.boma.org](http://www.boma.org) to see all 94 markets.*

| <b>Economic Impact of Office Building Expenditures in 94 Markets Served by BOMA Local Associations</b> |               |
|--|---------------|
| Total Office Space (SF)  | 9.9 billion   |
| Average Annual Operating Cost (SF)   | \$8.05        |
| Total Building Operating Expenditures  | \$80 billion  |
| <b>Impacts on U.S. Economy</b>   |               |
| Contribution to GDP  | \$205 billion |
| New Personal Earnings  | \$61 billion  |
| Direct Jobs Supported  | 2.2 million   |
| Indirect Jobs Supported  | 1.6 million   |
| Sources: BOMA International, CoStar Group Inc., GMU Center for Regional Analysis                       |               |



# Where America Goes to Work: Commercial Real Estate's Contribution to the Economy

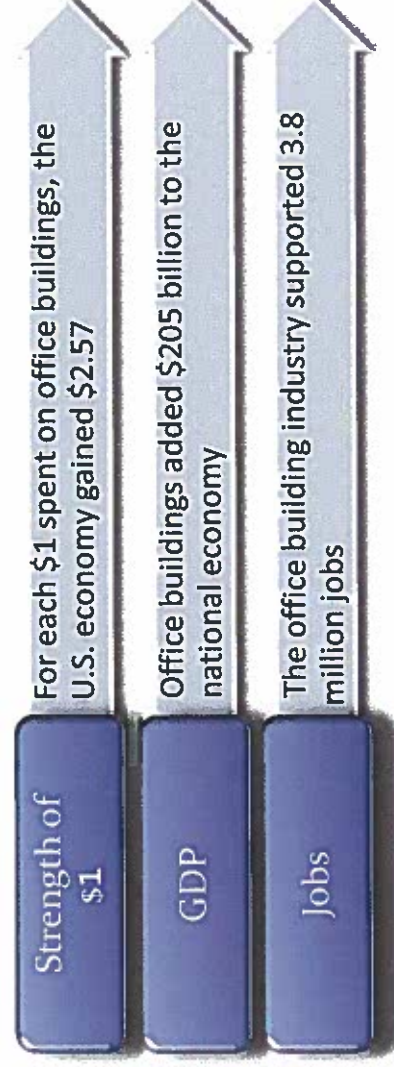
## Idaho Office Building Economic Impacts

| Office Market | Contribution to State Economy | New Taxable Personal Earnings | Total Jobs Supported (direct & indirect) |
|---------------|-------------------------------|-------------------------------|--|
| Boise         | \$232,207,021                 | \$71,866,038                  | 9,221                                    |

*The U.S. commercial real estate industry is a significant contributor to the nation's economy and has historically been a key driver to long-term economic growth.*

*Real Estate is also a leading employer in the U.S. - from building managers to security staff, and contracted services from legal to landscaping.*

## America's Office Buildings by the Numbers



Source: *Where America Goes to Work: The Contribution of Office Building Operations to the Economy, 2012*  
(Based on 2011 data)