

## CRE Terms: Office Classifications



For this edition of CRE Terms, we're going to touch on a more subjective topic, specifically how office buildings are classified as Class A, B or C. We'll be leaning on the NAIOP CRE Terms and Definitions booklet for a baseline interpretation of what these different classes mean.

### As Easy as ABC

According to NAIOP, which bracket a particular office building ends up in (A, B or C) depends on what other properties are available in that building's market. Per their definition: "The designations are determined primarily on the basis of building locations or submarkets, rents, building systems and finishes, and building upkeep and services."

This means that a building considered Class A in one market may slip into the next tier down when compared to offerings in a different area.

In general, however, we would classify an office building as Class A if it's located in a "major employment center", with good transit options nearby, and commands rents in the top 30-40% of the marketplace.

Class C buildings, on the other hand, are in the bottom 10-20% in terms of rent. These buildings are typically poorly located and often in need of upkeep.

Which leaves Class B as the option that's likely to be "just right" for most tenants who don't need the trappings of a top-end premises but still want to be in a good area at a reasonable price.

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### Class A in Demand

An interesting recent trend as employers negotiate the “return-to-work”, is that Class A properties seem to be becoming more popular. As NAIOP reports: “Class A buildings are driving net absorption rates in many parts of the country, such as the Sun Belt, and firms consider quality office space necessary to attract skilled employees.”

As part of that drive to get workers back in office, a lot of companies are also offering new incentives to go along with top-tier office space. For us as CRE professionals, that means there are a lot of new (and recirculating) corporate buzzwords to keep in mind. You might find your clients asking about installing “contemplative space”, for example, where their employees can unwind in indoor gardens and libraries.

### Best of the Best

Finally, for those after something even more eye-catching, we come to our last definition: trophy buildings. NAIOP defines a trophy building as: “A landmark property that is located in a highly desirable submarket, is designed by a recognized architect, and features high-end finishes and modern or efficient systems.”

Unsurprisingly, these buildings are at the top of many investors’ wish-lists, and they tend to attract premier tenants. Some examples of assets in this class include London’s “Walkie Talkie”, or New York’s Seagram Building (which incidentally just added a massive sports complex to increase its workforce appeal).

Definitions aside, for those working in the office sector, the most important analysis point of any building is how well it meets a tenant’s needs.

