

**P A R T**  
**I**

**COMMERCIAL**  
**REAL ESTATE**

COPYRIGHTED MATERIAL



## CHAPTER ONE



### THE OFFICE MARKET

**Steady fundamentals; This sector will bifurcate  
into have and have-not metros**

**T**he office market is going nowhere—fast,” observes Mitchell Hersh, president and chief executive officer of Mack-Cali Realty Corporation.

Hersh should know a thing or two about the office market as his company, based in Edison, New Jersey, ranks as one of the largest real estate investment trusts, or REITs, that owns, develops, and manages office buildings. In the first quarter of 2008, Mack-Cali revenues totaled just over \$800 million.

I have never met Mitchell Hersh, but he and I have spoken many times over the past years. I would have thought he would be more optimistic about the markets considering the fact that in 2007 he shrewdly increased Mack-Cali’s liquidity by issuing over a quarter of a billion dollars in new equity in a secondary offering and then in the third quarter increased the company’s credit facility by \$175 million—all before the commercial real estate market, following the residential markets, froze up. Mack-Cali’s portfolio

of properties (almost all of which were located in the Northeast) going into 2008 was about 93 percent occupied.

As he liked to say, “His powder was dry,” in case potential deals arose. And he expected to see substantial opportunities to acquire in the years ahead as badly financed office buildings will definitely need to be dumped back onto the market.

Over the previous decade, a vast amount of institutional capital had been created from the aging baby boomers, who had money in pension funds and 401(k)s. All this money had to be invested somewhere. After the dot-com bust of the late 1990s, much of this money found its way to commercial real estate, including office buildings.

So much competition for good prices forced down yields. “I cannot give you the exact snapshot,” Hersh says, “but yields went from 6 percent to just over 3 percent in about 18 months. Yes, the cost of capital was cheap and interest rates fairly low, but the investments were all about expectations.”

The theory was that U.S. cities such as New York, Boston, and Washington, D.C., were global communities and rents, as compared to overseas capital centers such as London and Tokyo, were inexpensive by comparison. Ultimately, a repricing had to occur. With a limited amount of new supply coming online, if the investor was acquiring property at a 2.5 or 3 percent yield, it was all right because if rents were \$100 a square foot today, they should be \$200 a square foot tomorrow, and that would grow the investor out of his low-yield problem.

Actually what happened, says Hersh, was that investors, even if they had capital, because cheap money was available, leveraged their investments. Not only did they secure traditional first-mortgage financing, but added to the debt stack with short-term mezzanine debt and bridge loans. Then they waited for these explosive rents to grow and bail them out. “The notion was in New York, if you bought at \$1,200 a square foot, two or three years later you could sell at \$2,000 a square and in effect you could flip out of the property,” he explained to me.

Unfortunately, rents have stalled and will continue to retract. “2007 was the best performing year and the peak of the office market in terms of fundamentals,” notes Sam Chandon, chief economist and senior vice president of REIS Inc., the New York real estate research firm. But most of that performance occurred by the second quarter, when asking rents for office markets nationally jumped

9.6 percent, and on an effective basis, 10.7 percent. In the third quarter of 2007 came the residential real estate subprime blowout, followed by the onset of the credit crunch and a series of crises for U.S. financial firms and all those gains began heading in the opposite direction.

“There is no doubt office building prices escalated to the point where many investors had to justify significant rent increases in the first few years of ownership to make pro formas work,” notes Dan Fasulo, managing director of research at Real Capital Analytics, the New York-based research company.

“Investors really started to expect high rent increases in 2005 and 2006, and for the most part the early investors got the rents they were seeking. It was only the investors at the tail end of 2006 through the middle of 2007 who will have a difficult time getting the rents they need.

“Certainly rental rates are not increasing anymore at the pace they were several years ago,” Fasulo adds, “Actually, as of the first quarter 2008 in many markets across the United States, there is evidence rates have dropped and concessions are increasing.”

Hersh adds with dismay, “A lot of expectations won’t be met and the day of reckoning is going to be in front of us.”

In February 2008, the *Wall Street Journal* spotlighted the very large New York suburban office market of North-Central New Jersey, in the heart of the Mack-Cali’s investment footprint. Statistically, there were two items of note: From fourth quarter 2006 to fourth quarter 2007, average annual rent per square foot moved from \$24.62 to \$25.54, a carryover from the buoyant office market before the subprime blowout; and over the same period of time, the office vacancy rate held steady at 17.8 percent, a not very strong number.<sup>1</sup>

The *Journal* noted, “Even as the area’s average office rents are ticking up, the region is facing the headwinds of a potential national recession.”<sup>2</sup> The newspaper then cited layoffs in the pharmaceutical sector (a big employer in the area) and stagnant job growth.

The harbinger of a troubled market came from the observation that sales of large commercial buildings in the region had come to a grinding halt. Referencing Real Capital Analytics data, the *Journal* reported overall sales of office, retail, warehouse, and apartment properties valued at \$5 million or more dropped more than 75 percent, from the same quarter a year earlier to \$811 million. Northern

New Jersey had tied Sacramento and Kansas City, Missouri, for the largest percentage drop of 50 major U.S. markets.

### **Where We Are Today**

After the dot-com bust at the beginning of the new millennium, a lot of capital that had gone into the stock market, in particular high technology companies, began to migrate to other investments, such as commercial real estate, that appeared to be more stable. Beginning in 2002 and 2003, a huge wave of capital flooded into investments like office properties and shopping centers where individual units were under long-term leases to credit tenants. In that period of time, the volume of acquisitions rose to a stunning \$50 billion annually.

Investors soon realized that for many commercial real estate asset classes, such as office buildings, there were further attractions. There had been limited new construction since the last real estate recession in the early 1990s, the sector wasn't overbuilt, and a smart investment could capture improving fundamentals. Dealmaking really began to take off. Real Capital Analytics reported \$140 billion in office building sales in 2006, followed by a record \$215 billion in office building sales in 2007.

However, 2007 ended up to be a bifurcated year as most of the record transactions occurred before the subprime blowup in the summer of that year.

The frantic pace of dealmaking just in the office sector was so pronounced that even conservative institutional investors, such as pension funds, threw out their guidebooks and dived into the maelstrom. Institutional investors, including REITs, pension plans, insurance companies, and even opportunity funds, are known as long-term holders of real estate, sitting on their investments for at least 7 to 10 years. But their holding periods dropped to five to seven years and in many cases two to five years.

There was so much capital flowing into the office sector, the price per square foot skyrocketed to record levels, then new record levels. In fact, a number of itchy-finger investors realized buildings could be bought for millions of dollars one day, then a few months later flipped for even greater millions.

In 2006, I began writing a story for *Barron's* magazine, with these comments: "It's not just your old college roommate, the one who

never held a steady job, who is buying and selling real estate faster than he can down a *mojito* at a Miami Beach bar. Institutional investors have caught the heat as well. Big office buildings and apartment communities are changing hands sometimes before the sign that says ‘new owner’ has been nailed to the wall. Everyone seems to be focused on the crazed condominiums markets in places like Las Vegas and Miami Beach, but institutional real estate investments are often trading equally as fast.”<sup>3</sup>

At the time, I mentioned how a group of New York investors bought the San Francisco trophy property Bank of America Center in 2004 for \$825 million, and when I was writing the story in the autumn of 2006, it was back on the market with an asking price of \$1.25 billion.

My favorite example of office building flipping was the 185,000-square-foot office building at 485 Fifth Avenue in New York. It sold in 1995 at \$137 a square foot, sold in 2000 at \$180 (or \$200 depending on your source) a square foot, sold in 2004 at approximately \$295 a square foot, and sold in 2005 at approximately \$475 a square foot.<sup>4</sup>

Perhaps the greatest flip was the Blackstone Group acquisition of Equity Office Properties Trust, the largest office REIT in the country, for \$39 million. Over half of the portfolio was immediately flipped to other investors. The Blackstone deal marked the peak of the office acquisition frenzy.

Sam Zell, former founder and chairman of Equity Office Properties Trust, is known as one of the savviest real estate investors in the world, having among other successes founded three REITs: Equity Office Properties Trust, Equity Residential Properties Trust, and Manufactured Home Communities Inc. However, Equity Office Properties Trust ended up on the auction block because of a rare boneheaded investment by Zell. In 2001, Equity Office closed on the \$7.3 billion acquisition of another office REIT—Spieker Properties Inc.

The idea behind the deal was rational. Spieker was a major investor in Northern California and especially San Francisco, where Equity Office was weak. Unfortunately, the deal was completed just as the dot.com bubble deflated, throwing a lot of empty office space back into the market. Equity Office never regained its momentum and over the next years the company lost investor favor. It was obvious to aggressive equity players such as Blackstone that the market

was undervaluing the high quality of Equity Office's huge portfolio of buildings.

In my first book, *Maverick Real Estate Investing: The Art of Buying and Selling Properties like Trump, Zell, Simon and the World's Greatest Land Owners*, I began by writing that great investors exhibit unbelievable patience. They never rush into deals and wait out market cycles even if it takes years. Six long years after the Spieker blunder, Zell finally struck back, engineering an intense bidding competition between Blackstone and Vornado Realty Trust for his company, just when the market for office buildings was in a culminating, frothing frenzy.

At no time in the years before and certainly at no time in the near future would Zell have been able to sell Equity Office at such a propitious moment. The timing was perfect, because just a few months later, the residential subprime market exploded.

The Blackstone folks were no fools. They immediately flipped billions of dollars worth of the office buildings, thus paying down a great deal of the debt taken on by the transaction.

When flipping starts, the investment market begins to take on all the characteristics of musical chairs, except in the children's game when the music stops, the last child sitting is the winner. In the flipping game, when markets collapse, the last investor sitting or standing is the loser.

The most famous investor to get caught as the last investor on the Blackstone flip was New York real estate magnate Harry Macklowe, who as I'm writing this chapter, was struggling to find a way to save his empire. His problem was he bought \$7 billion of the Equity Office assets from Blackstone, which he paid for with short-term debt, thinking he would be able to quickly refinance those loans with long-term financing. The credit markets fell apart in the wake of the subprime meltdown before he could do so, and those short-term loans came due. To drum up cash, Macklowe put up for sale the jewel in his holdings, the GM Building in Manhattan.

Another investor who was still standing when the music stopped was the Kushner Companies of Florham Park, New Jersey, which paid \$1.8 billion for a 41-story office tower at 666 Fifth Avenue in Manhattan in 2007. Not only was this more than three times what the building sold for in 2000, but at the time it was the highest price paid for a single building in the United States. For the acquisition, the Kushner Companies was able to get an interest-only mortgage



of \$1.215 billion, and then like Macklowe relied on short-term debt to bridge the difference between that number and equity.<sup>5</sup>

And like Macklowe, when the bridge loan came due, the credit markets were already in turmoil, and it couldn't be financed. But Kushner had sold a large portfolio of apartment units and was able to pay off a \$200 million loan.<sup>6</sup> The important thing to note in this deal, besides the grand price tag of the building, was that cash flow from existing rents would actually cover only 65 percent of the debt service. That amounted to a shortfall of \$5 million a month.<sup>7</sup> Like other investors, the Kushner Companies was relying on a buoyant real estate market to make up the difference. That was in 2007, but even two years earlier when I was writing my "flipping" article for *Barron's*, Lloyd Lynford, CEO of REIS, told me that buyers had already become "overly aggressive," according to a REIS company report that compared cash flow potential (actual value) of an investment against transaction price. The result was what REIS calls the "premium" being paid; for office buildings, that premium bulged to about 33 percent (over actual value).<sup>8</sup>

That brings us back to Macklowe, who as of spring 2008, was trying to sell the GM Building for over \$3.5 billion. This fact led the *Wall Street Journal* to rhapsodize that the GM Building "so bewitches investors that it's difficult to determine if the high bids say more about the strength of the New York office market or about the motives of the people who covet it. After all, the rents from the building barely pay the mortgage and many tenants have long-term leases far below current rates. Yet, the sales price jumps every time it changes hands."<sup>9</sup>

As one observer noted, "Nobody ever made money owning the General Motors Building; they only made money selling it."<sup>10</sup>

Maybe Boston Properties Inc. will. In June 2008, it bought the GM Building for \$2.8 billion, including assumption of debt.<sup>11</sup>

## **Where We Were**

Over the past two decades, the United States has experienced a couple of short recessions following key incidents such as the collapse of the \$4 billion hedge fund Long Term Capital Management, which kicked off a global financial crisis, and then again after the terrorist attacks in 2001. The deepest real estate recession of recent times began in the late 1980s and continued to roil property markets well

into the early 1990s. In some regards the genesis of that real estate recession was similar to that of one that began in 2007: too much capital floating around the market.

Basically, coming out of the 1970s, tremendous tax incentives were in place for building commercial real estate and huge amounts of new product started hitting the market. Then the Tax Reform Act of 1986 took away many of the deductions for this irresponsible building. Compounding the problem was a modification of the regulations governing savings and loans, allowing them to compete better with commercial banks, and the thrifts jumped madly into commercial real estate lending. The eventual outcome of all this was tremendously overbuilt property markets, the collapse of the savings and loan industry, the creation of the federal government's Resolution Trust Corporation to help solve the problem, and the establishment of the commercial mortgage-backed securities industry.

To get an idea of how much building went on, a look at just the office sector shows that from 1981 to 1989 over 100 million square feet of new space was created annually, with almost 200 million square feet in 1985 alone, reports REIS Inc. By the time the commercial real estate market hit bottom, less than 10 million square feet had been built in 1993 and 1994. The office market slowly began to reconstruct until the dot-com boom hit at the end of the 1990s, according to REIS data, and new office construction rose to over 100 million square feet again for the three years from 1999 to 2001.

From 2003 to 2007, two trend lines emerged. New construction moderated, REIS reports, ranging from 28 million square feet to 70 million square feet over those years, and cheap capital ignited an acquisition frenzy. In 2002 and 2003 fundamentals began to come back to the sector and that, combined with a real lack of oversupply, sparked investor interest. In the office sector, transaction volume moved above the \$50 billion market for the first time, jumping all the way to \$74 billion in 2004, notes Real Capital Analytics. The numbers then climbed exponentially to \$105 billion in 2005, \$138 billion in 2006, and \$215 billion in 2007.

If too much liquidity helped create the real estate recession in the late 1980s, the same holds true for 2007, but with great differences. The liquidity in the 1980s flowed into development schemes, whereas in the years after the turn of the century it was used for dealmaking.

## Where We Are Headed

The record amount of office deals in 2007 was partially fueled by Blackstone's acquisition of Equity Office and subsequent flipping of properties. According to Real Capital Analytics, these deals alone accounted for \$66 billion of sales that year. If there was anything unusual in all of this, it was that those particular markets heavy with Equity Office properties saw some of those individual properties trade two or three times over the course of 2007, thus making those markets some of the most active.

In 2007, 35 markets recorded more than \$1 billion worth of office property sales. Manhattan remained the most active market nationwide with over \$40 billion in sales, four times the volume of the next highest market. Los Angeles retained the top spot for the most individual properties sold, with 236 in 2007.

According to Real Capital Analytics, the top 10 locations with the heaviest sales volume, in descending order were Manhattan, \$40.9 billion; San Francisco, \$12.4 billion; Los Angeles, \$12 billion; Chicago, \$11.7 billion; Seattle, \$11.2 billion; DC-Virginia suburbs, \$10.7 billion; Boston, \$9.1 billion; Orange County (California), \$6.9 billion; Houston, \$6.3 billion; and the District of Columbia, \$6 billion.

Although the Equity Office acquisition skewed the geography of office deals, it was, however, an indicator of what is ahead in the office sector. Over the next few years, the United States will become a have and have-not marketplace for office investors. Those cities with less perceived risk will attract capital and those with the perception of risk (called second- and third-tier cities) will not.

What makes one city more "risky" than another is fewer barriers to entry. One reason why places like Manhattan, San Francisco, and the District of Columbia remain popular for office investors is that it is so very difficult to find vacant land to build a new project. In these dense cities, an old property will have to come down before anything new can be constructed, thus making new building even more expensive. If there are extreme barriers to entry, only a moderate amount of new offices are introduced into the market, making competition intense and keeping rents high. At least that's the theory.

Before I began this book, I interviewed David Twardock, president of Prudential Mortgage Capital Company, a Prudential Financial Inc. unit, for a story I was writing for *Mortgage Banking*

magazine. With the commercial mortgage-backed securities (CMBS) market eviscerated, about the only lenders left in the game during 2008 were the insurance companies, which were portfolio lenders. They kept their investments in portfolios rather than securitizing them and selling pieces to other investors.

Early in 2008, Twardock wasn't a big fan of the office market, but he was willing to invest on a strict geographic basis. "There are few office markets that have been really good," he said. "If you get down to it, New York, Boston, and if you bought at the right time, maybe San Francisco and Los Angeles. A lot of the other markets were never there—never very much in terms of cash flow increases. That is why some of the office REITs (like Equity Office) that are in select markets do well. With the financial service companies facing some issues, some of these markets will be weak for the next two to three years."

In the midst of 2007, the wildest year in the history of the U.S. office market, where a record volume of properties changed hands, there were already geographic divergences occurring. Almost every major city showed an increase in sales volume from 2006 to 2007, except Dallas (-34%), Boston (-25%), Atlanta (-12%), and San Jose (-6%), reports Real Capital Analytics. With all that activity, as one could imagine, the average price per square foot was leaping madly upward, but here too, there were laggards. From 2006 to 2007, the price per square foot dropped in Boston (-26%), San Francisco (-23%), Chicago (-8%), Atlanta (-2%), and Los Angeles, Dallas, Phoenix, and Houston (all -1%).

In terms of yield, as defined by average capitalization rate (present value of a stream of future earnings arrived at by dividing normalized earnings after taxes by present value), most markets saw a huge decline. With so much competition to buy properties, lower cap rates are expected. Again, there were slips here as well; between 2006 and 2007, Boston and Phoenix experienced a rise in cap rates.

"There was, on a relative basis, a surge in transactions over the last couple of years (through 2007), now in 2008 there is nothing happening because of the cap rate corrections, which are more pricing corrections, in those cities where there is no liquidity," says REIS's Chandon. "People are willing to pay for liquidity and show up to buy properties in New York and Los Angeles, but not in places like Chattanooga. In second- and third-tier cities there is no liquidity and there is no exit strategy for office building investors."

“There will be a bifurcation between markets considered global and markets dependent on the U.S. domestic economy,” adds Real Capital’s Fasulo. “Second-tier cities, many in the Midwest, are going to act much differently than Manhattan, which has a global diversification element. Growth in Manhattan will come from international business. Meanwhile, here in the United States, business is plateauing. Cities with a global business environment like New York; Washington, D.C.; San Francisco are not facing the same problems as, for example, a St. Louis.”

The impact of the credit crisis brought on by the subprime blowout was so quick that by the end of 2007 the main driver of office market acquisition activity, conduit loans (pooled, diced by ratings, and then sold as commercial mortgage-backed securities) had completely collapsed. The drying up of liquidity depressed the office market immediately and between the summer of 2007 and the advent of spring 2008, average prices fell nationally around 10 to 15 percent. The expectations are that prices will slow as the liquidity shock gets absorbed. Conservative estimates for office building pricing (on an average national basis) are that they will drop no more than another 5 percent.

“If the country enters a minor recession,” says Fasulo, “I would be very surprised if office market pricing lost another 10 percent. It would take a global recession to push this down even further.” Fasulo’s worst case scenario came to pass as bourses collapsed and credit markets froze up in almost all countries across the globe by the third quarter 2008.

## **Fundamentals**

In terms of operations, there is good news and bad news ahead for office properties. Unlike the great real estate recession of the early 1990s, this time around one of the main factors causing markets to implode is not overbuilding. The last burst of building activity, where national completions topped 100 million square feet was during the dot-com bubble. Since then, according to REIS, new construction mirrored, if not drifted below, demand, and national vacancy rates slowly declined from 17 percent in 2003 to 12.2 percent in 2007.

One result of that was steadily rising rents.

Chandon believes that this trend line will continue well into the next decade. According to REIS, new construction will stay moderate,

maybe topping 50 million square feet in any given year, whereas net absorption, which took a big hit in 2008, will return again and then continue to rise through 2012. In Chandon's view, vacancy rates will start to decline again after 2009 and rental rates should get back on a winning track.

That's the economists' point of view, but the outlook from people in the trenches is not so rosy. Although not disagreeing with the economists, the folks who own and manage office properties expect to see considerable pain inflicted on those investors who thought office properties were as good as gold.

Unfortunately, the price of gold fluctuates and so do the fortunes of office properties.

"In 2007, the frenzy in the office market was so great, it was like day-trading," observes Douglas Shorenstein, chairman and CEO of Shorenstein Properties LLC, a San Francisco private real estate investment company active in the development and management of office and mixed-use properties. "The values were not tied to historic real estate fundamentals like cash flow. It was more a factor of who would bid the highest price. You had auctions where 25 credible bidders showed and the bidding blew right through economic fundamentals. People were just trying to place capital."

"The basic business of the office property is leasing," says Shorenstein, explaining Office Management 101, a course most investors seem to have slept through. "This is the revenue side of the business and underpins the real estate."

When I spoke with Shorenstein in spring 2008, he was seeing the leasing market begin to soften. Obviously, the biggest enemy of commercial properties is vacancies, because losing a tenant means loss of cash flow. In a down market, it gets very expensive to keep occupancy up because other buildings offer cheaper deals so tenants crank up the requests for improvements. It gets very expensive to maintain occupancy in a soft market.

Although investors were buying office buildings at crazy prices up until 2007, increased rental rates were bailing the investors out. Shorenstein laughs, "At one point in the cycle, vacant buildings were worth more than buildings with leases in place under the theory that any new lease would be higher than any lease that was in place. I had never seen anything like this in my career."

In 2008, the only lenders left in the market were balance sheet lenders and to them it was all about fundamentals, not expected appreciation.

Capital was, indeed, cheap until 2007, and lots of deals were done with inexpensive securitized debt. However, taking advantage of the liquid capital markets, investors capped off the securitized debt that was 70 to 80 percent loan-to-value with mezzanine or bridge loans, which is expensive short-term debt. If that debt is coming due, investors have a problem. There is no access to new equity and those loans will go into default. There will be blood.

## Bonus Box

### *The Office Condominium*

For a long time, whenever I gave a talk about real estate investments to novice and local investors, I would often recommend the development of a small office building with enough space for two to four tenants. Frankly, I was a little behind the times because the office condominium (buy the space, not lease it) began to take up that niche. I really should have known better because I live in Mesa, Arizona, just outside Phoenix, and this central Arizona metro area had become the epicenter of the office condo world, with more of the product in place and under development than anywhere else in the country.

When I first wrote about the office condo phenomenon early in 2006, Phoenix already had more than 6.5 million square feet of office space built and 4.9 million square feet planned. This was at a time when many cities hadn't experienced a first office condo. Dallas, for example, which boasts a much bigger office market than Phoenix, could count just two office condo projects completed at the time.

This certainly looked like the coming trend, but when I had to write a second national office condominium market story for *National Real Estate Investor* magazine at the end of that same year, I called Robert Bach, who headed research for the Grubb & Ellis Co. and had recently done a report on the niche market. He was not very positive. In fact, his comment to me at the time (the close of 2006) was that the burgeoning office condo trend was merely a temporary phenomenon powered by low interest rates.

At the time, I wasn't sure he was right, but two years later his words proved prophetic.

When I first wrote about the office condo market in Phoenix, I passed over a firm called Shea Commercial because it wasn't quick enough to get back to me. After the story came out, Jim Riggs,

*Continued*

*(Continued)*

president of the company, called me up and cussed me out for leaving him out of the story as his company was “the largest office condo developer in the country.” So, when I began writing about office condos for this chapter, the first person I called was Jim Riggs. He never returned my telephone calls.

The second person I called was Colleen McPherson, vice president of office for CB Richard Ellis Inc.’s Phoenix office and a person who tracked the office condo market. When I told her about Riggs not returning my phone calls, she replied that was because this niche product was in foul shape and all the local office condo developers “were in trouble.”

I didn’t get to talk long with McPherson, but I had seen comments she made in other publications. According to McPherson, the original wave of office condos in the Phoenix area that sold in the late 1990s to early 2000s hit the market at about \$170 a square foot. Eventually, prices climbed to \$250 and \$300 a square foot. By 2008, after the credit crunch, the prices dropped back to \$200 a square foot. One big problem, she noted, was that buyers of office condos do not want built-out space.<sup>12</sup>

Other markets such as Miami-Dade County were experiencing similar trends.<sup>13</sup> On the other hand, a close friend acquired an office condo in Orange County, California, near John Wayne Airport, and when asked, he told me the development was steadily filling up. Orange County’s office market at the time sported a gaudy 30 percent vacancy rate, which meant there was a lot of inexpensive space on the market—tough competition for office condo developers.

I still maintain that office condos are a useful product for a small service company needing 5,000 square feet or less, but it is a relatively new phenomenon; and therefore the secondary market has not established any track record. Buy an office condo if it fits your company needs, but as a pure investment it will take another decade to sort out this niche.