



Office Condos – Here to Stay?

By Tawnya Dornak, Vice President and Chase Ferrell, Associate

Los Angeles, New York, Chicago, Miami, Philadelphia, Boston, Phoenix, and yes, Houston all have some variant of what we all see emerging onto the real estate scene: **office condos**.

What is an office condo? “Individual ownership of a unit in a multiunit structure,” is how I would define it. In this article, we will take a look at what the future holds for the office condo market, as well as, why office condos have recently experienced a rise in popularity.

The office condo exemplifies a niche market. Office condo developers have correctly identified demand for their product in various smaller, but still extremely active real estate markets. The market for office condos is typically defined by areas with increasing population growth – which means new residential development. It has been said that, “retail development follows the rooftops”. Well, it seems the same is true of office condos these days.

Most recent developments of office condos are designed for small, professional service providers or local service companies whose space needs will remain the same for a reasonably extended period of time. These companies are your typical accountants, attorneys, mortgage and insurance companies, real estate firms, doctors, software developers, marketing and design firms, and companies with strong ties to their local community. Office condos are also extremely popular with family-owned companies that are tired of commuting from an “in-town” office building and want to work close to home.

A one story, 5,000-10,000 square foot building that offers space as small as 500 square feet is most popular in today’s office condo market. However, there are developers who convert high-rise office buildings into condo developments or TICs (tenants-in-common). These projects are generally those found in less-than-desirable areas of the market. Buildings which have a significant amount of deferred maintenance are also excellent candidates for office condo developers.

Most buyers of office condos have recognized and taken advantage of the financial incentives associated with purchasing office space as opposed to leasing. Many small business owners think, “If I can purchase for the same price of leasing, why not?” Well, this is true for some, but not all. Some businesses lack the funds for a down payment, feel that they will outgrow their space in 3-5 years, or recognize their business’ short term need for capital. Other business owners are frustrated with paying rent for 20+ years and want to build equity through ownership. In truth, every business is different and must consider all the options the marketplace has to offer before deciding to purchase an office condo. As with everything, ownership has its risks and its rewards.

The office condo concept is still relatively new to the marketplace so we do not know exactly what the future holds for long term values or other risks such as resale value. We have yet to see how second generation condo space performs in the marketplace because it is still an emerging trend. What we do know is, they are selling and in some markets they are selling big.

Most real estate professionals feel condos are a good investment. There are so many alternatives out there – many of which are right here in Fort Bend County. The question becomes: Is purchasing an office condo a good decision for **your** company? That is for you and your real estate broker to determine.

If you are interested in learning more about office condos vs. office leasing please contact Tawnya or Chase at Indermuehle & Co.



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Tawnya Dornak is a licensed Texas Real Estate Broker and Chase Ferrell is a licensed Texas Real Estate Agent with Indermuehle & Co., 2333 Town Center Drive, Suite 300, Sugar Land, Texas 77478. Tawnya can be reached at 281.207.3702 and Chase at 281.207.3709.

For more information please contact:

Tawnya Dornak, Vice President

Indermuehle & Co.

2333 Town Center Drive, Suite 300

Sugar Land, TX 77478

tdornak@icotexas.com

Chase Ferrell, Associate

Indermuehle & Co.

2333 Town Center Drive, Suite 300

Sugar Land, TX 77478

cferrell@icotexas.com