BOMA Deep Dive

LEVELING THE PLAYING FIELD

Practical Strategies to Elevate Class B & C Buildings

BOMA International

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Key takeaway for strategic improvements

By Beth Mattson-Tieg for BOMA International

The pressure to elevate properties—and avoid costly vacancies is especially acute in those markets where fundamentals have softened and leasing activity has slowed.

Buildings always want to put their best foot forward to attract and retain tenants. But in a market where owners and managers are battling competition with tight operating budgets, they need to target investment in areas that can deliver the most bang for the buck.

The pressure to elevate properties—and avoid costly vacancies is especially acute in those markets where fundamentals have softened and leasing activity has slowed. “The flight to quality is real, and it’s having an impact on how class B and C building teams think about staying competitive and what investments will help them attract and retain tenants,” says Brian McViney, director, major accounts, Kastle Systems. Tenants that would typically choose a class B or C building are now considering A, even if it means taking less square footage in order to make the economics work.

Class B and C owners don't have the luxury of simply throwing money at a problem. Rising operating expenses, insurance, and debt service costs are all squeezing NOI. Most B and C operators simply can't afford a comprehensive capital improvement plan. They need to be strategic and focus on lower cost, higher return investments that help to better position their building in a competitive market.

The good news is that not every impactful improvement is a major capital expenditure. "The most effective operators are anchoring their improvement decisions around one specific question: What makes the leasing tour better?" says McViney. "If you work backward from the tour, you stop guessing and start investing where it counts." A great tour experience also does "double duty" by helping to attract new tenants and reinforcing the decision for tenants you already have, he adds.

Making strategic investments

B and C property owners are cost-conscious. "They're definitely focused more on necessities, and certainly not investing in frivolous things," says Kyle Maikath, vice president, new business sales at Building Engines, a JLL company. Even Class A property teams are being creative in the things they're doing to make investments that add value versus throwing money at amenities that don't get used.

Some of the tried and true features are still relevant, such as a cafeteria, conference room or a coffee bar. Buildings also are adding features such as golf simulators and podcast rooms. “I think people are thinking a lot more outside the box about the amenities they build; testing them to see if they work well; and then replicating them,” says Maikath.

Investment in class B and C buildings are clustering around several key themes that include:

- **Safety and security**: Although safety and security are often basic table stakes for properties across the board, it also has shifted to a genuine differentiator. “Tenants, especially those coming from Class A buildings, expect demonstrable security measures. The key word is demonstrable. It needs to be visible and communicable during a tour,” says McViney.

- **Tenant experience and technology**: The experience people have within a building day-to-day has become a competitive factor. Mobile-first access, seamless visitor management, and access to neighborhood amenities are all key ingredients to that tenant experience.

- **Location promotion**: Not every B or C building is in a prime location, but that doesn't have to be a liability. “Smart operators are investing in tools and programming that make the surrounding neighborhood an asset rather than an afterthought,” says McViney.

- **Sustainability**: Sustainability remains a hot topic, though for B and C buildings it tends to manifest more in operating efficiency, such as lighting and HVAC systems, rather than the pursuit of formal certifications, which can be cost-prohibitive.

- **Modernizing building infrastructure**: Updating legacy systems is important to ensuring compliance with changing regulations, while also improving the reliability and resiliency or critical building systems and reducing operational risk. These upgrades not only protect tenants and owners but also strengthen leasing appeal and asset performance by demonstrating that the building is secure, well-managed, and future-ready.

- **Cosmetic improvements**: Beauty may be surface-level. However, fresh paint and updated finishes are a relatively simple and low-cost way to make a building feel more modern and welcoming. Thoughtful use of color and architectural accents also can help to differentiate a property from competitors.

Tenant experience apps

Technology can be a relatively inexpensive way to add an amenity to a building. For example, a tenant experience app can layer on top of an existing building operating system to engage with tenants, promote services or amenities and also collect feedback from tenants about their experience.

Prior to COVID, there was a huge buzz around creating tenant experience and owners were paying more for tenant experience apps. “Tenant experience apps were a shiny object that people were putting into a building just to keep up with the Joneses,” says Maikath. Now the price of those apps has come down, and property owners can get the technology at a lower cost. Additionally, owners can get more value from experience apps by utilizing the data, such as better understanding which amenities are being used and collecting tenant feedback. That information can help to inform future CapEx decisions. For example, tenants might love the coffee bar, but no one is using the fitness room. So in the next building renovation, maybe an owner decides to build a bigger coffee bar and skip the gym.

Younger workers in particular have higher expectations around technology, and leasing brokers are incorporating technology features into their property tours as key selling points. On a tour, a broker might say, ‘Hey, let’s grab a coffee at the coffee place, I have a coupon in the app.” Or the broker might use the app as

their security access to swipe into a building or an elevator. “You can incorporate it into the flow of a walk-through, and it makes the building seem more modern and tech-friendly,” notes Maikath.

Tenant experience apps also can be used as a tool to promote amenities available outside of a building in the local neighborhood or surrounding area. A landlord can use the tenant app to offer coupons for the restaurant down the street or promote a yoga class at a nearby fitness center. “It’s a way for them to create community and make it seem like they're offering amenities and services to the building—at really no cost to them,” says Maikath.

Tenants can use the app to manage visitor pre-registration, receive package notifications, book amenities, and access curated neighborhood content. “A well-implemented tenant app transforms the building experience,” says McViney. In addition, conference rooms and flex workspace that can be reserved through an app can serve as a practical amenity and a potential revenue stream. Whether through direct reservation fees or a credit-based system, these amenities can offset technology costs while also showing extremely well on tours, he adds.

Tips to optimize ROI:

- It’s important to have someone driving content for the app to engage with tenants so that it is not just a static tool. Someone needs to be in charge of pushing out those coupons and sharing information and updates about building events or services.

- Budget time and energy for change management. The ROI on any technology investment is directly tied to utilization. Leasing teams need to be trained to feature these tools in tours, and tenants need a reason to use them from day one.

- Some buildings can choose to use the tenant experience as an optional feature. However, requiring the app for building access is a way to promote widespread utilization.

Sustainability: Building electrification

Landlords are using their mechanical heating and cooling systems to demonstrate energy savings, cost reductions, and reduced carbon emissions. “We see a lot of building owners touting those metrics,” says Dan Gentry, a marketing engineer at Trane. In the past, building owners often focused on the architectural treatments or the cosmetic aspects of a building. Now they’re really taking pride in their mechanical systems and talking about the efficiency of those systems with tenants, he adds.

The most effective operators are anchoring their improvement decisions around one specific question: What makes the leasing tour better?

Building owners are continuing down the path towards electrification. However, owners who are considering electrification need to be mindful of how systems are designed. A well-designed system can significantly reduce costs and emissions. At the same time, a system that isn't well designed can result in an electrified system that reduces carbon emissions but is significantly more expensive to operate, advises Gentry.

It's important for building owners to work with experts who understand the details of mechanical systems and heat pumps and what technologies are feasible. There is a perception that you can just take out a boiler and put in a heat pump. "You can do that, but the level of complexity that is involved is really dependent on the full design of the system," says Gentry. "Heat pumps can be really expensive if you're not careful in the application of them."

Some of the nuances of a retrofit depend on the system type. Small buildings, for example, may have rooftop units that have different implications depending on how big the units are, where the units are located, and how much spacing is required for things like ducting and piping. "A lot of it comes down to: What does my building allow for, and how much flexibility does it have?" says Gentry. "When you look at that, you can put together a list of options for different types of mechanical systems and evaluate what may be a good fit for your system or for your building."

Tips to get started:

- Building electrification sounds like a costly, heavy lift. However, building owners can dip a toe in the water in building electrification by investing in specific equipment. For example, in the case of a small building with rooftop units that have direct expansion (DX) compressurized cooling and a furnace for heating, there are widely available heat pump versions that are all-electric. “That could be as easy as taking the old one off and putting the new one on,” says Gentry.

- Heat recovery equipment is another great starting point for electrification. For a building that has simultaneous heating and cooling loads, implementing a heat recovery chiller is relatively straightforward with a number of cost-effective technologies that are available. It also offers good “bang for the buck” in reducing operating costs, says Gentry. From there, an owner could look at creating a phased plan for full electrification someday.

- A key takeaway for building owners considering electrification is to start the conversation and inventory the building to see what options and opportunities might be available.

Modernizing building infrastructure

Some improvements are “must have” versus “nice to have.” One of those is dealing with changing regulations and the sunset and shutdown of POTS (Plain Old Telephone Service) lines that are servicing critical devices and systems, including fire alarms and elevator communication. Money that owners perhaps wanted to spend in other areas needs to be prioritized for system upgrades from a regulatory and compliance perspective.

For example, AT&T has announced that it is phasing out traditional copper-based landline services across most of its U.S. network by the end of 2029 because the old infrastructure is too costly and unreliable. What that means is that now is the time for building owners to modernize their legacy copper lines linked to critical building systems.

Technology as a whole is advancing and building owners need to think about how to bring POTS into the 21st century. ‘The traditional challenge with the copper line is that it’s out of sight, out of mind. Property teams don’t know if they’re working or not until it needs to be used or an inspection is done,” says Dave Beagle, senior director of business channel sales at Ooma. Newer technologies, such as cloud-based solutions, give managers visibility into the status of critical systems. Newer systems also have redundancy, such as battery backup or Ethernet ports that can maintain connectivity.

“Oftentimes, owners know they have to replace a POTS line, but they don’t know about all the newer technologies that may be out there,” says Beagle. The de facto default that a lot of the facilities people do is go to their alarm company and say: I’m going to lose my POTS line, or it's costing too much. What do you have? The alarm companies are turning around and selling them a new module to plug into a panel, which may not even be an option on older panels.

According to Beagle, the drawback is that it is a one-to-one solution. If there is one panel, there is one module for that panel. If there is another panel, such as for an elevator, there is another module needed for that. What that ends up creating is different fragmented points and a lack of visibility into the status of the entire system within a building or portfolio, he adds.

And while cellular service providers are going to LTE, 4G and 5G service, those mobile connections are not always 100% reliable. There are plenty of examples of outages in the past two years that have resulted in exposure to problems. “There are a lot of concerns about the resiliency or redundancy tied into the solutions for life-safety panels to elevators and other mission-critical environments such as HVAC,” says Beagle.

Tips to get started:

- Facility teams should do their diligence to understand what newer technologies are available to provide resiliency, redundancy, and visibility into lines throughout a building and portfolio. “No one wants to be woken up at 3 a.m. and have to go on site because the alarm panel wasn’t communicating with the monitoring station,” he says. “It’s better to go online and see the status of those devices before you do that.”

Building technology and security

Historically, B and C buildings couldn't afford the staffing model of a class A property with an on-site security operations center (SOC). However, technology is helping to level the playing field. “We're seeing a clear acceleration toward solutions that are both cost-effective and visible,” says McViney. “What's changed is that remote video guarding and monitored security services have made enterprise-grade security accessible in a much more budget-friendly way.”

Remote video monitoring, backed by a professional SOC, delivers 24/7 monitored security at a fraction of the staffing cost. Owners also can promote those features during tours by showing a prospective tenant how the building is monitored, what the response protocols are, and why that matters for their employees and visitors.

Such solutions are cost-effective. For example, when a mid-sized B office building deploys remote video guarding across common areas, parking, and entry points, the monthly cost is typically a fraction of a single part-time security officer. During tours, the leasing team can walk prospects through the monitoring setup and explain that the building is backed by a professional SOC with defined response protocols. “That conversation, which previously didn't exist, has become a meaningful part of the leasing pitch and directly addresses what is often an unstated concern for tenants evaluating a non-class A building,” says McViney.

Key value add components:

- Replacing plastic key fobs with mobile-first credentials, such as Apple Wallet, Google Wallet, or Samsung Wallet passes is a visible modernization that tenants immediately notice.

- Mobile credentials reduce card management costs for the building and improve security as digital credentials are harder to lose, steal or share. “

- Once deployed, tenants are effectively carrying your brand in their phone's native wallet app every day.

Maintaining curb appeal

As the saying goes, you never get a second chance to make a first impression. Basic foundational improvements to the interior and exterior of a building can go a long way in simply setting the tone for a building that is on it's way up.

A fresh coat of paint is one of the most economical ways to create immediate design impact. "Paint is different from other architectural elements. It not only provides an aesthetic change, but it also adds protection and increases longevity," says Rebecca Boyd, color and design manager, multi-family, The Pittsburgh Paints Company. "Color also can express change and a new direction very quickly."

One of the trends within the multifamily sector is to incorporate accent colors to building exteriors. Properties were gray for over a decade, before they moved to neutral whites, then warm whites and beiges. According to Boyd, more multifamily properties are seeking to differentiate themselves from others down the street, and accent colors are a way to set a property apart. In addition to paint, people are incorporating elevated elements like stained wood and stone to mimic nature in their interior and exterior common spaces.

Some apartment managers are using local, natural elements and color palettes in their design in the form of biomimicry. Biomimicry is the color placement of nature in an environment, such as using shades of brown or darker greens on the floor or painting the ceiling a softer blue to represent the sky, for example. "This is an inexpensive way for property managers to bring the concept of sense of security into a space," says Boyd. "We're also seeing different regions adapt their own nature-inspired color palettes to include natural elements in exterior accents or interior common spaces.

In addition to a fresh coat of paint, property managers can elevate their space with new architectural elements. For example, adding a wood accent wall to a building entry can elevate the aesthetic. Property managers also are experimenting with bolder colors in apartment units, such as painting cabinets with trending colors. "Cabinets are a great way for property managers to experiment with bolder colors and even create mockup units to receive feedback," says Boyd.

Tips to maximize value:

- When transforming a space, common areas and entryways offer the greatest impact value. Property managers are focused on bringing more visual interest to these spaces and leveraging paint color is a strategic, cost-effective way to do so.

- Color palettes should take into consideration geographic location, as well as generational differences. For example, Gen Z residents might enjoy bolder colors, while baby boomers often gravitate to softer, soothing colors. However, knowing your audience and understanding the psychology of your tenants is more important than following a trend.

Key takeaway for strategic improvements

Strategic investment is essential to elevating a building because it allows owners to focus limited resources on improvements that deliver the greatest impact on tenant perception and performance, whether by taking small, targeted steps today or initiating a longer, phased plan that builds value over time. With that approach in mind, a few practical tips can help owners prioritize the right improvements and maximize return while staying within budget.

Don't over-promise on amenities you can't consistently deliver. For example, a reservable conference room that's always double-booked or poorly maintained is worse than no conference room at all, notes McViney. “Whatever you put in front of tenants as a differentiator needs to work reliably,” he adds.

Consider the operating expense, and not just the CapEx. Many impactful improvements an owner can make, such as remote monitoring, tenant apps and mobile credentialing, are subscription-based services that sit in OpEx. “This makes them easier to approve, easier to reverse if they don't perform, and easier to scale. That's a meaningful advantage in a capital-constrained environment,” says McViney.

Whether it’s a one-off change or a more comprehensive phased strategy, start with a tour to gauge what areas have the most impact on potential tenants. “The most common mistake is making improvement decisions in isolation, such as new lobby furniture or a fresh coat of paint, without asking whether these changes actually shift a prospect's perception during a 30-minute walk-through,” says McViney. “Map your tour, identify the moments that matter, and invest there first.”