Hughes Marino
Because Where You Do Business Matters™

It's Not Just About Rent

Thursday, January 5, 2012 | San Diego Metro Magazine | David Marino

Over the course of my 22-year commercial real estate career in San Diego, which now sadly spans three economic downturns, I have learned that money matters more than ever during a recession. However, business owners and management teams shouldn't make facility selections based solely on rent.

The first major driver in facility decisions is location. Location preference means not just where the business owners and the executives live, but also by which sites are conducive to recruitment and retention of a workforce that supports the success of a business. The employees of a company are its most valuable assets, and the location must support reasonable commuting distances for the relevant, skilled, educated and experienced workforce.

Second, a facility's cultural elements are increasingly important drivers in the real estate selection process. The facility must be congruent to the mission statement, and the building should "speak" to the culture that the company is looking to instill. You can't talk about having a company that believes in quality, communication and being "cutting edge," and then expect employees to perform at the desired level with a dirty, obsolete, poorly lit, dysfunctional space. Culture is impacted by the amount of natural light, interior architecture, color, graphics and art (not "inspiration" posters), the openness of the space, the height of the workstation panels, the amount of social and collaborative space, the cleanliness of the space and restrooms, and the size and adequacy of the breakroom amenities. What is the feeling that a prospective employee or customer has when entering the premises—what does the facility say about the company in the first sixty seconds that someone experiences it? For example, I am coaching business owners and executives to look for details like the specifications and quality of light fixtures, and how they might reflect on computer screens. The simple orientation of the space, if it is south-facing or north-facing, affects the ability to keep the window coverings open or not during the day, as south-facing space gets extensive glare from the sun, and north-facing space has virtually none. Additionally, the requirement to have more open workstation space and fewer private offices requires higher, finished ceilings in office space—9 foot minimum interior ceiling height. More companies desire an "agency" look and feel where open ceilings expose the HVAC ducts and buildings' structural elements to add a "funky factor."

Other aspects that are attractive to business owners include the quality of the building in consideration, and its amenities such as food service, lockers and showers and fitness facilities. Five years ago, when the market was stronger and landlords had more pricing power, tenants steered towards class B and more R&D types of buildings. Now, with the glut of office space, particularly in UTC and Downtown, tenants today can get class A space for the price of class B and C five years ago. As a result, tenants are becoming more image and amenity sensitive, and are drawn to the premium properties at discounted pricing.

The cost and hassle of getting into a new facility should also be taken into consideration. An occasional sublease can sometimes be delivered with furniture, telephone systems and network cabling in "plug and play" condition. Laboratory facilities that have substantial infrastructure in place can eliminate the expensive capital cost of building out a new facility with plumbing, benches, fume hoods, clean rooms, and other vital business infrastructure. Leasing facilities in such condition allows a company to ramp up their business more rapidly, versus having to go through the expensive and time consuming design, engineering, permit and construction of building out new space. Tenants often prefer previously built out space, as the hassle of having to work with architects and contractors to build out space is a significant distraction for the management team member, or business owner tasked with such responsibility. Generally, tenants select alternatives that are quicker and easier for them to get into, versus those that have to be fit up from a shell or radically remodeled.

As the economic recovery begins to get traction, I am seeing more corporate tenants make facility selections based on expandability over the lease term. This is one reason that UTC and Downtown high-rise office space is becoming so attractive to more and more tech companies, as a smaller growth-oriented company can almost be assured that a 6-20 story high-rise will support the growth of the business over time.

The bottom line is that commercial real estate tenants don't typically look for only the cheapest space in a vacuum–it's not just about rent. Tenants want to pay the least possible rent for a building that meets their bundled minimum standards for location, cultural fit, quality, amenities and expandability. Business owners want to pay the least possible rent for space that works. There is no point in getting a great deal on terrible space that can't support the success of the business.

David Marino is Executive Vice President of Hughes Marino, a San Diego commercial real estate company specializing in San Diego tenant representation and building purchases. Contact David at (619) 238-2111 or david@hughesmarino.com to learn more.