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4 Tips for Tenants in a Tightening Market

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How to get the best lease deals for your business. As the commercial real estate market tightens countywide, across all product types (but particularly in larger blocks of space over 50,000 square feet and the Class A office market), tenants need to adapt their thinking when they are looking to lease or purchase new space for their businesses.

Having experienced the ups and downs in the San Diego commercial real estate market over the last 23 years, which now enters the third commercial real estate recovery cycle, there are four major considerations that tenants need to think about when going to the market.

Cost Per Employee

1. Think about “cost per employee” versus cost per square foot. So much of the thinking around commercial office and lab space is based on cost per square foot. However, a bigger driver in your occupancy cost is the square footage that you actually lease. More and more companies are getting increasing efficiency by abandoning private offices in favor of work stations, and the private offices that remain are smaller (people don’t need all that filing space anymore!).

Additionally the work station “fabric panel” is becoming a relic of the past, as more and more companies reduce panel height or eliminate work station panels entirely. There are amazing next generation furniture systems out there that are more cost effective, open and functional than the “cube farm” of the past. These new systems allow companies to reduce the per person square footage required.

When you start thinking about “cost per person” you have a better way to value the trade offs of cost relative to location, quality, amenities and other features of comparative spaces. While a $0.25 per sf rent premium might sound expensive for a better space, that converts to $50 per employee per month (assuming 200 square feet per person), which very well might be worth the investment to get that better space.

Use the Soft Market

2. Take advantage of the relatively soft market. Tenants with leases expiring in 2012 and 2013 will be pleased to know that the market is still historically relatively soft, although not as tenant favorable as it was in 2010 and 2011. Notwithstanding, there are still great deals as San Diego County’s average time on the market of available space remains between 18 to 24 months in most product types and most submarkets. Landlords still need tenants and have buildings to fill. Landlords are willing to get aggressive, providing ample tenant improvements and free rent to offset a tenant’s moving costs. It is still a great time to be a tenant and to lock in long term rents and concessions. By locking in long term leases, the tenant can negotiate more favorable economics and concessions today, versus having a lease expiring in 2-3 years as the market will be inflating at that time.

Look Around

3. Consider other submarkets. Tenants might find that the cost of office space in Del Mar Heights is high, and that Sorrento Mesa is becoming overheated too. There is a migration of tenants from Del Mar Heights to UTC, including Covario, Service-Now and Bank of Internet due to this elevated pricing. Other companies, like Santa Barbara Tax Products Group, are moving to Torrey Pines, which has better value today that Sorrento Mesa and UTC. There are also great values to be had in Kearny Mesa, Governor Park, UTC, Downtown, Carlsbad and

Mission Valley. Industrial space continues to have value all over the county. Tenants need to be more flexible in the submarkets that they might consider, and brokers really have to know the market to understand where the values in the market are.

Get Up Early

4. Start early. In this tightening market, it may take longer to find the right solution, or to build out the right solution. In some larger facility projects we are working on, the best choice for a tenant with a lease expiring in 2014 and 2015 might be a "build to suit" for their larger, or more customized needs. Don't get caught late, or short on time, in a tightening market.

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