

## Commercial Real Estate is For Everyone

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**M**any people think that commercial real estate articles are just for business owners who need to lease space, or for rich investors looking to buy buildings to get further richer. Not in our world, where commercial real estate has become a topic that has broad application and appeal.

If you have a retirement account, you likely own public real estate investment trust (REIT) shares. If you have insurance, your insurance company likely has up to 10 percent of its investments in commercial real estate. If you own stocks, every company that you own shares in leases commercial real estate, and the increase or reduction in their occupancy costs flows right through to earnings per share.

If you have a job, then your employer likely leases commercial real estate, and if your company can lower its leasing costs, then your company is poised to be more competitive. If you need a job, tracking availability rates of commercial real estate will help you understand if companies are creating jobs or trimming jobs. If you are in architecture, engineering or construction, then the direct effect is obvious.

Most important of the above, commercial real estate demand is a leading-edge indicator of changes in the job market and the economy. Companies need more office space only when they intend to hire more people. Biotech, manufacturing and industrial companies need more space only when they intend to launch additional R&D programs or ramp up manufacturing activities requiring facilities for materials, work in process and finished goods. At The Irving Hughes Group, all we do is represent corporate tenants and users of space in their leasing and purchasing of facilities. That gives us the unique advantage of knowing precisely to the square foot what a tenant leases. As we work with relocating companies as they expand or contract, or companies to renew their leases or purchase a new facility, we are initiating that activity six to eighteen months in advance of when companies' leases expire. During this process, we have complete visibility of the square footage that a company intends to move to, whether growing, moving laterally or downsizing. That translates directly into the jobs that company intends on creating and the research or manufacturing activities that are intended to be launched.

The data around growing and shrinking companies serves as a leading edge indicator of where the job market and the economy are going. At any given time, The Irving Hughes Group is representing approximately 150 San Diego corporate tenants in all submarkets of San Diego County, across all product types (office, lab/flex and industrial) and across all industries. This sample size of 150 companies represents approximately 2 million square feet of active engagements and provides great verifiable raw data with which to create and trend an accurate forecast.

As of April 1, 2010, 44 percent of our active client square footage demand was driven by growing companies, 38 percent from stabilized companies and only 18 percent from shrinking companies. Fully 82 percent of the square footage demand was being driven by stabilized and growing companies!

Virtually all of the shrinking companies were right-sizing their space and ridding the excess left from 2008-2009 layoffs, and those companies were not anticipating further reductions in staffing going forward. Most of the growing companies are in the medical device/health care, technology and Internet-related industries. The submarkets most likely to benefit from this growth are also the softest submarkets of the region, such as Del Mar Heights, Sorrento Mesa and the I-15 Corridor. Downtown San Diego is the only submarket where there is a material negative net loss of square footage demand expected. Even in light of these signs of overall net growth, don't expect a commercial real estate recovery for many years to come, which is good news for corporate tenants and companies looking to purchase their own facilities. The growth won't make a dent in San Diego County's

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office space availability of 21 million square feet, with another 9 million square feet of available lab/flex space and 20 million square feet of available industrial space on top of that.

While commercial real estate statistics generally reflect availability in percentage rates, which range from 20 percent to 30 percent depending on the submarket, there is 50 million square feet of available space on the market, and at least half of that has to be absorbed before landlords and their listing brokers can claim it's a landlord's market again. Within this 50 million square feet, 7 million square feet is for sublease by motivated sublessors at a discount to market. That sublease square footage has stagnated for five quarters in a row — the only consolation for landlords and building owners is that it's not getting worse, and the bottom is within sight.

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