

Understanding “Microclimates” Can Help You Get the Best Leasing Deal

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We have all learned that regional weather forecasts can be useless when talking about the “microclimate” of your own neighborhood. A “mostly sunny” weekend forecast doesn’t mean much when a storm rains out your kid’s soccer game. The same analogy applies in the commercial real estate market. Regional lease rates and occupancy trends provide a useful backdrop, but it’s vital to understand “leasing microclimates” in each submarket, to get the best fit for your needs and to drive the best deal for your budget. What is going on in Torrey Pines wet lab space is independent from Sorrento Mesa office space and Otay Mesa industrial space.

Deals for Office Tenants

The key to success starts with a clear understanding of your own space requirements and how they relate to the specific submarkets that you could consider. For example, Class A office space in both UTC and Sorrento Mesa is tightening in all square footage ranges, particularly for tenants above 20,000 square feet, and pricing is going up. While Del Mar Heights doesn’t offer good values, a larger office tenant can get a great deal today in Torrey Pines, Scripps Ranch, Carlsbad or Downtown. Alternatively, Sorrento Mesa Class B space is very soft in all square footage ranges, with opportunities literally \$1.00 per square foot less than Class A space—there isn’t a submarket in the region where the spread from high to low is so great!

Deals for Industrial Tenants

Good large industrial space is tightening in Poway, much due to the expansion of General Atomics, but opportunities abound in Sorrento Mesa, Miramar and Rancho Bernardo. When Poway first opened in the early 1990’s, it was supposed to be the value industrial neighborhood on the I-15, relative to Miramar, whereby Miramar was built out in the 1970’s and 1980’s to accommodate industrial users in the central county area. Now Miramar is cheaper than Poway, and with a superior location to service the region. With the additional benefits of the Enterprise Zones, now expanded into Miramar, Sorrento Mesa and Rancho Bernardo, Poway really falls off in terms of the value that it was envisioned to be. For those that can venture further south, Otay Mesa has a fire sale today, with rents that are some of the lowest in all of Southern California.

Not all Office Tenants Face the Same Reality

In general, if your office space needs are in the 3,000 to 10,000 square foot range, there are lots of options out there to consider in each microclimate. However, when your space requirements are in the 50,000 to 250,000 square foot range, the options become more limited. There might be only one or two alternatives for a large tenant in each submarket. A big tenant is at risk of influencing these microclimates as they search for space, as brokers begin to speculate on what that tenant’s options are. Ultimately, a larger tenant might require a “build to suit” for their special needs, or should consider a “pre lease” of a new building, which can open up the field of options. There are several new speculative projects on the drawing board where a larger tenant can do such a “pre lease.” This is the case on the 56 Corridor, and in Sorrento Mesa, UTC and Downtown. In order to drive the best deal, tenants need to formulate their search strategy more carefully than ever, rather than just touring around the region without a deliberate approach. Tenants and brokers that put proposals out to buildings that are not strongly in consideration inflate the entire market, as it creates a false sense of demand. If a landlord only has one viable tenant to consider, they have to get aggressive in making that one deal work. But if a careless broker has put out six RFP’s for a tenant, now there are five landlords out there with false hopes of being the winning bidder, inflating real estate prices for those tenants that might consider those alternatives seriously.

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Although the market opportunities for larger tenants are more limited, there are still strategies tenants can use to develop better alternatives. If viable, do expand the search into other areas beyond just your preferred microclimate. Recently, a 40,000 square foot client with limited Class B options in Sorrento and UTC, chose to lease space in Torrey Pines, when initially Torrey Pines was not even in consideration. Another alternative is to split the operations into multiple locations. This is particularly stronger for tenants that have a mixed warehouse/office use, as often the warehouse portion of the use will limit the field of options. Splitting space may seem less desirable, but developing those options in parallel can help your negotiating position with potential landlords, and provide better operational solutions than would have existed otherwise.

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