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Biz Buzz: Tenants Face Challenges in Tight Commercial Real Estate Market

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Patrice Street apartment

By Barry Saywitz | Special to the NB Indy

The commercial real estate market today is dramatically different than it was just several years ago, especially during the economic downturn.

All sectors of the commercial markets including the industrial market, office market and multifamily market are all extremely tight and have rebounded significantly from the downturn.

Industrial space in Newport Beach and throughout Orange County has a one to two percent vacancy and has seen dramatic increases in rental rates over the last 12 months while concessions for tenants have continued to dwindle.

The number of tenants looking for space outnumbers the amount of available buildings. Therefore, by the simple rules of economics, while demand exceeds supply, rents and pricing will continue to increase.

The office market has seen similar progress over the last six to 12 months in that vacancy rates continue to drop and rental rates are now increasing at a fairly rapid pace. The multi-family market for tenants looking to rent is extremely tight, and the amount of available medical space, flex space and R&D space are all in limited supply.



4740 Von Karman property

So what does this mean to tenants looking for commercial space in today's environment? Tenants who know that they will be in the market for new or additional space will need to begin looking for space far in advance. The lack of available options and the amount of competition in the marketplace will require that a tenant do its due diligence so that once they find an available property that suits their needs, they are in a position to make quick decisions and act accordingly. Negotiations in a tight real estate market are less drawn out, and when instances present themselves with multiple bidders in a property, the negotiations take on a completely different spin.

Issues such as the tenant's credit, securitization, improvements, timing and length of lease are all factors that landlords will evaluate far more closely in a tighter market.

Tenants who have better credit and are willing to sign a longer term lease with less upfront concessions certainly look far better as a prospect to a landlord and will have a greater chance of making a deal.

Conversely, those tenants who have marginal credit require significant improvements or wish to haggle for lower rent or larger concessions will find making a deal much more challenging. Many tenants find themselves being outbid or outclassed with the current environment.



River Street apartments

It is imperative that tenants are educated as to the market and as to which areas they are willing to negotiate to achieve concessions. Both of those areas of expertise can be accomplished by engaging a commercial real estate broker on behalf of the tenant. There are companies that specialize in solely representing tenants and negotiating on their behalf to not only identify opportunities but achieve the overall best terms and conditions. The use of a commercial real estate broker will save the tenant and the executives at the company time and money as a result of being smarter and more educated as to the market and motivations of the landlord.

The key to success for finding available space is to identify opportunities that are either not currently on the market or have just become available. Those commercial real estate brokers and brokerage firms who are in tune with the particulars of the market, local landlords and other tenants may have access to information or opportunities that may be available before the general public.

The keys to success in this type of challenging commercial real estate market are knowledge of the market, information as to the motivations of the other parties and a sophisticated negotiating strategy to still achieve as good a deal as possible knowing that it is a landlord's market.

Therefore, if a tenant is planning on needing commercial space in the near future, the best advice is to plan ahead, hire a sophisticated and educated real estate professional and be prepared to act quickly and negotiate well to achieve the overall best terms.

Challenging times require more forethought and a better plan of action. Those companies who are able to do this effectively will be far better off than those who do not.

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