



ORANGE COUNTY

Industrial Tenants Must Know Their Options

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In an extremely tight market like Southern California, tenants must start thinking about and researching space early and may need to be flexible in their requirements in order to meet their needs, Barry Saywitz tells GlobeSt.com.



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IRVINE, CA—In an extremely tight **industrial** market like Southern California, **tenants** must start thinking about and researching space early and may need to be flexible in their requirements in order to meet their needs, **Barry Saywitz**, president of the **Saywitz Co.**, tells GlobeSt.com. We sat down with Saywitz for a chat about how tenants are dealing with the lack of available space and how they are meeting their space needs.

GlobeSt.com: How do industrial and manufacturing tenants deal with a tight market and limited options for space?

Saywitz: We deal with it every day. The issue is the industrial market, all over Southern California except for a few pockets of areas, from Otay Mesa to Orange County to South Los Angeles County by LAX and the airport and the mid-cities area, out to the Inland Empire—the markets are all tight. Vacancy is extremely low. The L.A. industrial market is the tightest in the country, and the rest of the markets here are not far behind. So, it's a dilemma: if you need any kind of specialized industrial space, it's difficult to find. Tenants that need higher ceiling height, a big yard or extra lab space have even further-reduced options from what was already a small list.

Also, if you find good options, because the market is so tight, others are looking at it. And if you need work done to the site or building, in a normal market, the landlord might be willing to do it, not worrying about the next tenant, but now that's not necessary—the market is so tight that someone will come along and take it as is.

Compound that with the fact that a company with specialized improvements cannot move overnight may need to duplicate its operations in another building because they can't have downtime. A lab or clean room can't be shut down on Friday and open up again on Monday, so they're looking for alternative space in advance of when their lease is up. If their lease is up in the middle of next year, they're looking for space now, but a landlord with space on the market is not interested in a tenant who is looking to occupy it nine months from now because others will take it right away. That makes it more challenging for someone who needs time to get their site set up. There are fewer options, more competition and fewer concessions, and this doesn't bode well for tenants looking for space.

GlobeSt.com: Are they likely to choose a different market with more options or make do with whatever space they can get?

Saywitz: It's really a case-by-case basis. Some tenants say they need to be near the port, but this is a really hot market; it's tight and pricing is expensive. The further away from port you get, the less expensive the rent is, but you have to balance freight fees with rent fees. It's an overall business decision, and tenants have to weigh their options. A good broker will present them with all the options, and then they can run an analysis and decide.

In a tight market in general, whether it's office, industrial or anything else, you don't have the luxury of taking your time in making decisions. If somebody else is interested in the same space, you have competition. Some tenants are willing to pay more or go to another market. You need to start looking at other options because you need to make a decision. In a perfect world, we'd have the exact space you need available when you need it for the right price, but the end result is that you may need to expand your parameters because a perfect world doesn't exist. Some tenants get this right away; others don't. They need to understand the market.

GlobeSt.com: What creative methods are these tenants coming up with to meet their space needs?

Saywitz: You will have to start thinking about it early; get your ducks in a row well in advance of your lease's expiration. You may need to hire professional to help you, someone who knows what's going on, understands your needs, will make you aware of what options are out there and can negotiate for you. Also, if you need work or specialized improvements on your space, you should figure this out before you look at buildings. If a site needs certain things, the more information you have in advance, the better off you are. If you have to hire a contractor or an architect, how much will that cost? And different cities require different things from a regulation standpoint.

It's not a perfect world, and tenants need to get a little more creative and think outside the box. A tenant that might needs 60,000 square feet might be looking at two buildings of 30,000 square feet instead of one 60,000-square-foot building. If a site has more space than they need, they could sublease out the other amount they don't need. You need to start early, be educated, have good help and expand your parameters to look outside the box—have a fallback option if you can. Sometimes luck happens, sometimes not. All of these things affect a tenant's business, growth and functionality. They might choose to go to a 3PL, use short-term storage or rent a small **warehouse** down the street to buy time.

GlobeSt.com: What else should our readers know about this topic?

Saywitz: Looking forward, I don't think the market will do anything other than stay tight, at least in the short term. From a landlord's perspective, you should offer reasonable options. It's good to be the king in a market where you can do that, but when tenants are renewing a lease, they may get sticker shock. And buyers' options are limited: you need to pre-qualify for a loan, you can't haggle. You have less rope to play with when the market's tight and others are looking at it.

The good news is that we're in an **economy** that's going well, which translates to an overall real estate market that's going well. Businesses are expanding, tenants are paying more rent and looking for bigger facilities—these are the functions of good things. They are problems nonetheless, but for a guy who is struggling in his own business, he won't get help from the real estate market. If his rent goes up, it goes right to his bottom line, and if he is not expanding, he will have issues. We see that, and the solution for that is to take smaller space that's less expensive and possibly move to a different area.