



STRONGER ECONOMY ALLOWING BUSINESSES TO CONSIDER MOVES

Panel of experts optimistic about office expansions

By JOE DYTON Special to U-T San Diego 12:01 A.M.FEB. 24, 2014

There is hope – albeit guarded – among real estate experts that the commercial market in the San Diego area is finally recovering from the Great Recession.

The numbers bear that out. Industrial and office vacancy rates were down in San Diego and office vacancies remained stable in the fourth quarter of 2013, according to the CoStar Group, a provider of commercial real estate information, marketing and analytic services.

So what does the future hold for commercial real estate in the San Diego area?

A panel of experts recently discussed the future of the commercial real estate market and provided advice for businesses looking to move or grow. They were Doug Ceresia, senior vice president, NAI San Diego, Jeff Saywitz, a principal with San Diego's The Saywitz Company; and Tom van Betten, managing director, Cassidy Turley, San Diego.

Q: Are we seeing a commercial real estate comeback?

Saywitz: Absolutely. Now that the economy is improving you're starting to see more companies look at the bigger picture and growth more closely, whereas in the past many companies were in more of a holding pattern.

Van Betten: There's a company in Carlsbad named ViaSat that's building an approximately 70,000-square-foot building across the street from its existing campus.

That's a big deal because we haven't seen a lot of new construction in a while. That was driven by the proximity to the existing campus. They could have leased existing buildings and they chose to build for convenience, proximity and to support the company culture.

Ceresia: Qualcomm is in the market for a very large expansion. What I do see are more and more companies (like Qualcomm) today that are ready to make decisions about their real estate needs, whereas back in the recession, you had a lot of people not knowing what to do. They were doing short-term renewals and extensions of their existing office space because they didn't know how to plan for the future because there was so much uncertainty. There's still some, but there is less uncertainty out there. People are making decisions on relocating or expanding their offices, adding new improvements to existing spaces and doing longer-term commitments because they feel more comfortable about the business climate than they did maybe 24 to 36 months ago.

Q: Are there incentives to move, expand or build?

Saywitz: Yes there are still incentives in the marketplace, although they are not as prevalent as they have been in years past, and as the markets continue to improve we will start to see those diminish. That said, in many cases we are still seeing rent abatement and tenant improvement dollars available for credit-worthy tenants. The amounts will vary, depending on sub-market and landlord, but in some cases they can still be sizable.

Van Betten: The incentives are typically negotiated with the landlord. Sometimes we are able to negotiate maybe five months of free rent upfront, which helps the company pay for the move, stationery printing and those types of things. Depending on how tight the market is, rent abatement or free rent has always been a fairly standard concession that the landlord makes for companies that move, expand or renew their lease.

Ceresia: The decision to move often revolves around a couple of things. If they have to recruit and retain employees, what is the most convenient location to place your office to recruit and keep talent? A lot of people pick office buildings or markets that are centrally located to accommodate those two goals: recruiting and retaining top talent. Then they look at the kind of environment they want to provide, not just location, but what kind of office environment they want to provide. The trend we do see is people want something fun and creative. This is where they're going to spend most of the time they're awake, in the office. There are also owners who want to be closer to where they live and will put offices near their house. Or, they want to be conveniently located where their clients might be coming from. So law firms (for instance) tend to gravitate towards downtown, or to the Del Mar Heights area.

Q: Are there different ordinances to consider depending on the type of company that is looking to move/expand/build?

Van Betten: There are some new code and building restrictions that need to be incorporated into new buildings. There are new building standards that have been effective starting Jan. 1 that add cost as they're mandatory measures and they deal with water efficiency, conservation, etc. California is leading the charge on this. For instance, (there are new) storm water and pollution prevention (ordinances), and you have to have bike parking, LED lights, etc. There's also a linkage fee in San Diego that would increase the cost to build a new building. That cost supports low-income housing.

Saywitz: Zoning will vary based on the sub-market and tenant's use, and as such it is important to have proper representation to ensure that these things are properly investigated and taken into account on the front end.

Q: Are there advantages to setting up a campus for a single business or to bring in collaborative businesses?

Saywitz: There certainly can be, but again this really depends on a company's specific business model. It's important to understand the overall dynamics of a given company and what they are trying to accomplish with their space needs. This can be a great for creating synergy for some companies but may not make sense for others.

Van Betten: The collaborative business model is more difficult to do than said. You have to line up the right type of real estate for several different companies and timelines, rent, budgets, so you'll find companies that like to be around each other typically, but not necessarily sharing campuses. ... There are companies that want their own campus. We've seen those in San Diego occasionally pop up. The scale of the company drives it all. When you get up over a couple hundred-thousand feet you start to realize you can't fit in one building.

Ceresia: Qualcomm is a great example (of a single business campus environment), but not every company is that large in San Diego. We're not a big headquarters town. You don't see as many large corporate users looking for campuses that you might in say Chicago or some major corporate headquarter-type city.

Q: What advice can you give to businesses considering building or moving?

Saywitz: Now is very good time for tenants to be reviewing their real estate situation, as we're in a state where the market in general is still soft enough to allow for creative deals with tenant incentives. However, the markets are also in recovery mode and rental rates are increasing and vacancy rates decreasing, which means that you will cut a better deal now than you will six months or a year from now. This also holds true for lease renewals, which can be restructured well in advance of the lease expiration if properly handled.

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