

# Surplus Commercial Space a Windfall for Bargain-Hunting Tenants

## REAL ESTATE Landlords Lure Small Businesses With Markdowns and Makeovers

By MARION WEBB

As continuing high vacancy rates among San Diego County commercial properties force landlords to sharply cut rents and offer concessions as a means of keeping existing tenants and attracting new ones, the weak market can mean big bargains for savvy small firms looking to lease or purchase space.

Stacey Hansen, senior property manager for Essex Realty Management Inc., an Irvine-based commercial property management firm, manages several commercial properties in North County, including the Los Vallecitos Business Park in San Marcos, which houses Hansen's office.



Stacey Hansen

At the Vallecitos Business Park, many of Essex's mostly small-business tenants took a financial hit, forcing them to leave the building, Hansen said.

"We have had tenants who have been here for 20 years move home or move out to purchase their own building," Hansen said.

Last year, an engineering tenant with three employees left the building after leasing space at the property for 15 years, she said.

"Their business had dropped so much that it didn't make much sense for them to pay rent when they had home offices," Hansen added.

The engineering tenant wasn't alone.

### Retail Center Half Empty

Since Hansen started managing Essex's retail center — a 13-suite building located off El Camino Real in Oceanside — back in 2007, the management firm has lost 50 percent of its tenants.

"A couple went out of business, a hair salon (owner) decided to rent a chair at another salon, a deli had to shut down because when the economy went down they couldn't sustain revenues," Hansen said.

"Their timing was just horrible," she added, in referring to the opening of the deli.

In an effort to retain tenants and draw new ones, Essex lowered its office space lease rates at the retail center in 2007 from between \$1.50 and \$2 per square foot per month to \$1 to \$1.70 per square foot per month, according to Hansen.

However, that has not translated into a rush of new tenants, Hansen said.

At the Vallecitos Business Park, Essex is offering one month of free rent for every year signed on a lease agreement, Hansen said.

To make the property more attractive, Essex renovated each suite, asking for \$1.65 per square foot per month of office space, but then dropped rates even further to \$1.25 to \$1.10 per square foot per month. Industrial space at the business park now runs 77 cents to 79 cents per square foot

per month, which also signifies a steep markdown from three years ago.

Total occupancy at the park is now at about 80 percent: "Four of seven buildings are fully occupied," Hansen said.

### Office Vacancies Remain High

Statistics on the San Diego County office market published by the San Diego Business Journal in its March 29 issue suggest an overall upward trend in vacancies, and with it, lower lease rates.

According to the news report, of the 111.4 million square feet of office space countywide, 17.1 million square feet, or 15.4 percent, remained vacant. This is the highest vacancy in 16 years in San Diego.

The report suggested that another 3.8 million square feet of office space is likely vacant, but not on the market, because it is still under lease by companies that have no current use of the space.

For businesses looking for space or existing tenants looking to restructure their leases, the weak office market leaves the window of opportunity for landlord concessions wide open.

Doug Regn, assistant director for MAAC Project Head Start, located at the Vallecitos Business Park in San Marcos, said his organization greatly benefited from hiring Irving Hughes Inc., a San Diego-based commercial real estate company that exclusively represents tenants.

Under a new five-year lease agreement, MAAC Project Head Start pays a lower rate than originally proposed by Essex and negotiated \$160,000 in additional funds for

tenant improvements: new carpet, fresh paint and restroom renovations, he said.

MAAC Project Head Start and Early Head Start, a federally funded program serving 1,200 low-income children and their families in North County, recently received \$1 million in government funding to serve 100 more children in the area.

Therefore, the expansion was needed and location was also critical, he said.

"We needed more space (to serve the children) and (needed to) continue to stay where we were," Regn said, adding that the project has been operating at the business park for the past 14 years.

### Small Businesses Seek Office Space

Jeff Saywitz, managing director of San

Diego operations at The Saywitz Co., a national commercial real estate brokerage and consulting firm based in Newport Beach, said that in the last 18 months he has seen a 20 percent to 25 percent jump of small-business clients looking for office space.

"A lot of tenants who weren't aware of the use of our services or thought it would cost too much and dealt with the landlords directly started to realize that there is big money to be saved," Saywitz said.

He stressed that The Saywitz Co. exclusively represents tenants looking to buy or lease space and charges the landlord a



Jeff Saywitz

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