

Commercial market improving

Size matters in tenant deals

Happy New Year! The recovery of the Ga. 400 corridor commercial real estate market recovery in 2005 will mean different things to different size tenants.

Small tenants

If you are a small tenant, call it under 5,000 square feet, you can pretty much go to the market at anytime you want and find a good deal. You will be able to really really good deals in sublease space or just very good deals in direct space...whenever you get ready.

What is a really really good deal compared to just a very good deal? Well a really really good deal will probably be a buck or two less per square foot and might also include furniture and maybe the phone system too. These deals exist for medium and big tenants. There are just not as many.

The very good deal would likely be something more like a 10-20 percent discount off rents that are 20 percent lower than they were 3 to 5 years ago.

The risk you take with a sublease is not having a direct relationship with the prime landlord. So if, your sub landlord doesn't pay the rent to the prime landlord, you may be in trouble - but most prime landlords will usually figure out a way to take your rent. Worst case scenario, the cost savings you get upfront

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should out weigh the costs associated with the rare likelihood of a potential second move.

Medium tenants

If your are a medium size tenant, say 5,000 - 10,000 square feet, you will still be able to find both really really good deals and the just very good deals, only there will be just half as many to choose from and the cost savings you get upfront may not outweigh the costs associated with the rare likelihood of a potential second move.

This doesn't mean you shouldn't try to get one of the really really good deals, just make sure you have considered the risks and done everything to mitigate them. Good tenant rep brokers and good real estate attorneys can help you mitigate some of the risks.

In some cases, the landlord may even do a direct deal with you at the really really good deal rate, and allow the previous tenant pay off your discount in a separate transaction and just leave you out of it. In any case get some good help. The bigger you are the harder you can fall.

Big tenants

If you are a big tenant, over 10,000 square feet, as long as the market stays soft the world is your oyster. And it may stay soft throughout 2005 or it maybe not.

The problem for the big tenants is there is no new supply under construction, so we are certain of one thing, as time passes: there will be fewer available big spaces. It all depends on how fast and how well companies in the area continue to do and how many companies continue to relocate to the area.

There continue to be multiple plus or minus 20,000 square foot corporate relocations floating around out there and there is always the possibility of a big fish coming to the area. It certainly wouldn't be the first time.

When the market begins to tighten look out! It will happen fast and rates will spike. Good ole' supply and demand will take over after that. So big guys "get it while the getting is good." I don't believe the really really good deals will be available for you guys next year.

Happy New Year!
Please don't hesitate to email me with any questions or comments at rlackey@city-cre.com.