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## How do I address my real estate challenges during an economic crisis?

First, identify your current challenges and needs. A quick bullet point list will help identify the dilemma and lead to the unveiling of a solution.

- 1) When does our lease expire?
- 2) Is our current real estate in line with our strategic plan and five year business model?
- 3) Are we growing or are we contracting?
- 4) Have we engaged an exclusive tenant representative broker?

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If your answer to the first question is within 18-24 months, then the time to think about your real estate challenges is now. Time can serve as a tenant’s best friend but if neglected it can become a tenant’s worst nightmare. If your office lease is expiring within the next two years, you can start by addressing your growth needs, understanding your internal requirements and ensuring that your real estate can support your firm’s five year business plan. Your next step is to engage an exclusive tenant broker as soon as possible to assist in dissecting your real estate needs.

The future state of the economy is unknown, however the current state of the commercial office market is

blatantly clear; office space is flooding the market and tenants should be prepared to take advantage of it. There is approximately 1,077,296 square feet that has the potential to become vacant space over the next 6-24 months here in San Francisco. This large block of space includes leases held by Merrill Lynch, First Republic Bank, Lehman Brothers, Bear Stearns, AIG, Washington Mutual, Wachovia and Heller Ehrman LLP. The previous estimation does not include the over 1.3 million square feet of newly constructed office space that is expected to be fully introduced to the market by early 2009. This would naturally suggest a decrease in rental rates but to what extent is not yet known. There are institutional entities which own multiple buildings in San Francisco such as Morgan Stanley. Whether or not they will hang onto these assets is also unclear. If these institutions look to unload their local properties we could see strong local ownerships back in the market on a more significant scale. This could mean good news for tenants as well, because there has been stagnant leasing in buildings owned by institutions due to pro-forma expectations. Combine an increase in inventory with decreasing rental rates and the potential for strong local owners to garner more assets; you’ve just made a recipe for tenant success.

Tenants could be swimming in office space and they will need as much time as possible to digest all of the potential options. With a downturn on the horizon, engage a tenant broker and allow your firm ample time to gather research and data. If you can combine a comprehensive examination of the market with proper timing, you will afford your firm the opportunity to make superior real estate decisions.