



What Type of Tenant Are You?

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Before you go out to find space for your business, you must define what type of tenant you are. It is somewhat easy to determine the basic space type you will need. If you are a retailer you will need a store; if you are an attorney you will need office space; if you are a manufacturer you will need industrial space. As easy as this may seem, there are many situations where this question itself isn't easy to answer, not to mention some other difficult questions that must be answered.

If your space use is simply defined and you know what kind of space you require you are ready for step 2, actually going out and looking for space. But what if your space use is not so clear cut? What if your business is a technology company, a contractor or a showroom? Perhaps your use is a hybrid, or as we call it in the business 'flex?'

Imagine if you are a retailer and you either don't want to be located in a shopping center or you can't because no one will allow your use. Can you go to a different building type? Can you afford to buy or lease a free-standing building? Can you lease space in a flex building? If a flex building would work for your business, does the zoning, as well as the building owner allow your use?

Answering these questions before you seek space will save you time and aggravation. Below are 3 scenarios to help illustrate this point:

Scenario 1: The Retail User

You want to open a shoe store that will stock hard to find sizes and styles. You have done your market research and know there is a need for this niche. You also know shoe designers who can create and provide you with authentic and custom shoes.

You know that you want to open a store, but where? Should you open at the local strip center next to the Pizza Place? How about in the mall 2 miles away next to the Dress Barn? How about the free-standing building in between the strip center and the mall? Or the 4th choice, perhaps in the 'flex' building between the kitchen showroom and the plumbing supply store?

After reviewing the above options you determine a few things. The first is that people will probably not just stop in the store just to window shop. Your customers will come in

to your store when they have a need and are in shopping mode. This rules out the flex building because the companies in the center with you are not complimentary.

The strip center, which has cheaper rents than the shopping mall is appealing only because of the price, but like the flex building, the other tenants in the center are not going to draw customers to your store. However, because this strip center serves the daily needs of the neighborhood, you get plenty of exposure. It should not be your top choice but you have not ruled it out yet.

Next we have the shopping mall. People come to the mall to shop. They know that they will spend more time walking around looking to see what other stores have. This is excellent for you since you will gain from the foot traffic from the other tenants. Unfortunately the rent rates at the mall are extremely expensive relative to the strip center. Also, the mall owner is offering a minimum of a 5 year lease while the strip center owner offered a 3 year lease.

Lastly, you have the free-standing building being offered for sale or for lease. The location is right in the middle, which you like. The pricing is also in the middle between the strip center and the mall. You like not having to worry about odors from any other neighbors, but you do wonder if you can draw clients on your own. You speak to your banker, run some numbers, and you see that you can actually afford to purchase this building. You like the idea of owning the property since in case your business fails you still have a piece of real estate. You really like this option.

In this situation, your best bet is to lease space in the mall. The reason is that you want to give your business the best chance to succeed. Sure, it is a 5 year lease, but if you are not funded and you don't believe you will be successful, then you are already setting yourself up for failure. If you buy the free-standing building, you put yourself in a tougher financial spot for no real reason. The money you would use for the down payment could be better utilized for the business itself, meaning money spent on inventory, advertising, interior fit-up etc. You should be able to get a higher ROI (Return on Investment) than the real estate would provide. If your use was that of a dry cleaner or a dog spa, you would be better off buying the building so you don't have to worry about neighbors complaining.

Scenario 2: The Office User

You are an attorney who decides to leave your current practice and go out on your own. You know how many people are going to come with you and therefore know how much space you will require. However, what kind of space will you need? The reason why you should ask this question is because not all office space is the same for your need.

Do you need space in the suburbs near where you live or do you need space near the courthouse? Do you need to be Downtown for large clients? Will you even have large clients or are you going to just focus on smaller clientele? Perhaps you will be best suited in a converted house? Your situation is a lot better than the Scenario #1 above because

you can literally choose space that reflects your business objectives. Also, there will be more choices for you because as a general office user you can lease space most anywhere.

However, assume that you are not a general office space user. Imagine that you have a new tech company and are in the need for space. Chances are you are not going to want to be in a high-rise downtown, but rather in a more suburban area. Infrastructure for your data lines is crucial so you cannot be in the middle of nowhere. You also may need more power depending on your servers. A 1-2 story flex building in a campus setting may be your best bet.

If you feel your company has the potential to really grow like many other tech firms, it is wise to lease space in a campus because the owner will be able to move you to a larger vacant space should you grow out of your current space. Of course a landlord that owns a number of properties in the general area is just as good as a campus setting. You want to make sure you have the potential to grow.

The single practitioner need not worry about this as much though if the attorney from before is planning on growing her business she should keep this in mind when looking for space as well.

The next important factor to consider is location. Though you may not need visibility like the retail tenant above, you may want a certain amount of prestige or even have a need to be in a high rent district. Let's say you are in the Washington DC Metro area. Instead of just being an attorney, assume you are a lobbyist. A high profile office in Downtown DC is probably better for business than an office in the suburbs. However, if you are a non-profit and most of your day-to-day business does not have to be in Downtown DC it may make more sense to move to the suburbs.

When choosing prestige, remember that you are paying for it in more than just rent. You will probably rent less space in a high rent building than in a cheaper building in the suburbs, meaning your employees will be more cramped. If it bothers your employees enough you can end up with a turnover problem. You may also have to think about commuting issues such as traffic congestion, and access to public transportation. Lastly, wage rates may be higher in an urban environment than in the Suburbs.

You also need to take into account the demographics of your office, meaning will certain space and building types offend your employees? Perhaps older and season employees will not care that much where they work but younger employees want a more laid back office environment, such as Yahoo and Google have. You want to attract the best talent while not losing your current talent. The result is that just any building WILL NOT do.

Scenario 3: The Industrial User

You have a small toy company but because of the recent woes with the Chinese manufacturers you have just landed contract with both Wal-Mart and Target. You need to find a new facility to meet demand.

Let's assume you have 2 options. Option one would be to keep your current facility for just manufacturing and move the warehousing portion someplace else. Option 2 would be to find a totally new facility. If there are no viable warehouses really close to your current facility then this is not even an option. You also have to think about how much cost you are adding to the bottom line of each toy by shipping to your warehouse and then shipping to Wal-Mart and Target.

Your best bet is to find a brand new facility, one that can handle both your manufacturing and your warehousing needs. For your new accounts, you must find out where you will be shipping your products to; is it a local warehouse or a regional warehouse in another state, or perhaps several regional centers? How often will you be shipping and receiving both materials and products?

Those questions alone will get you started. If you will be doing a lot of trucking you will require good highway access. You may want to be away from toll roads since they will add to your shipping costs. That is, you may not be able to have a plant really close to home; you may need to move to another part of the state with better highway infrastructure. You also have to consider the local labor pool and wage rates, along with relative utility costs since you'll be using more power. You must include in your site investigation if properties in the area you are looking have sewer.

Even in what would seem to be "established" areas, you need to confirm the availability and capacity of the sewer system. Additionally you must find out if the system can handle your type of discharges if any as a result of your operation. You should investigate whether your area is predominately "union" labor and are you willing to accept that. Lastly, you must check the local zoning. What if you need to run 3 shifts? Does the local code allow 24 /7 operations for example.

You will also need to be in a building that will allow for both manufacturing and warehousing. Depending on your contracts, you may want to find something close by on a shorter term basis to see if you even want to keep these large contracts. Sometimes large contracts are worse for your business, since you go from being a small business to a larger business over night. Plus, more of your business is coming from a couple of accounts, what happens if they cut the contracts at some point?

As you can see in all 3 scenarios, just knowing the basic space/building type is not enough. Other factors that impact your space type are location, identity and functionality. It is not easy to find the ideal space, which is why working with a commercial real estate agent and/or other business minded individuals will help.