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# Developer

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March/April 2008

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## ShopTalk

page 24

Donald Wood,  
President and CEO,  
Federal Realty  
Investment Trust





## Small But Mighty

Catering to small companies is a big business.

By Lori Johnston

**T**enants in the Farbman Group's Midwest office buildings want high-end finishes such as marble and granite and extras such as fireplaces and windows overlooking atriums.

These brazen requests aren't coming from large companies consuming vast amounts of space, but from an influx of small businesses with a lot of clout. Larger tenants once were the only ones with specialized spaces because small and mid-sized businesses didn't have the buying power, says Andy Gutman, chief financial officer of the Southfield, Mich.-based company.

That's different now.

"With changes in the economy, especially in the Midwest, we're seeing the smaller tenant coming in with the list of items," he says. "We're catering now more than ever to the 2,000-square-foot to

5,000-square-foot tenant."

Small businesses comprise the majority of U.S. companies, with their numbers jumping from roughly 21 million to 26.8 million in the past decade, according to the August 2007 estimates by the U.S. Small Business Administration. Those companies are occupying more commercial space, both leased and for sale, and developers are finding that thinking small can be a big strategy.

"Small businesses obviously drive, or fuel, the U.S. economy," says David Ortiz, chief executive officer of Global Group Investment, a Weston, Fla.-based owner of 10 Florida office condominium projects totaling more than 1.5 million square feet and representing more than \$312 million in construction costs. "You've got to cater to these businesses that are only 10 or 15 employees, but handle millions and millions of dollars worth of business," he says.

Plus, catering to small businesses

**A Good Deal:** Small businesses build equity at developments such as Beacon Square, which meet their specific needs.

reduces the risk of having one large tenant fill a building. "Years ago, we were dependent on the single tenant, the high-net worth and high-credit tenant," Gutman says. "But when they vacate, you have to reconsider your property. Now we can spread out the risk a little more."

### BIG CHOICES

Office space hasn't been immune to today's economic slowdown. The overall office vacancy rate increased for the first time in four years, to 12.6 percent at the end of fourth-quarter 2007. That's up from third-quarter vacancy of 12.5 percent, according to Reis, a New York City-based real estate research firm that analyzes 79 metro markets in the U.S.

While much of the attention is on high-profile company layoffs that might make space available in large, expensive buildings, Reis chief economist Sam Chandan says small businesses will be



more sensitive to rent increases because their pockets aren't as deep. But as more space comes online and occupancy levels fall modestly through 2008, some of the price pressure on tenants looking for office space will ease, he says.

And clearly, developers want to cater to small businesses. Farbman Group's focus on small enterprises has led to long-term relationships. For example, an engineering firm initially leased 2,000 square feet in one of its projects. When the company grew, Farbman built its 250,000-square-foot headquarters. "We've found that over time, if you work with small businesses from the onset, the opportunities rise as they continue to grow," Gutman says.

That's a big reason why developers continue to build for-sale office space, despite the recent economic slowdown. Data from Grubb & Ellis shows that more than 80 office condo projects around the country were completed, under construction, or proposed in 2007 and 2008. The majority range from 5,000 square feet to 50,000 square feet.

"Ownership is always going to be attractive," says Larry Walshaw, president of Jacksonville, Fla.-based Business Condos USA, which has more than 1 million square feet of industrial flex, retail, and office condos completed or under development. Small businesses, especially mom-and-pops, are going to own space given today's low financing rates and development enticements. The benefits of owning versus leasing are a "no-brainer," particularly once businesses realize there is help from agencies such as the U.S. Small Business Administration, Walshaw says. The money is available, he says, with approximately 90 percent of his deals—in cities including Houston; Nashville, Tenn.; and the Florida cities of Jacksonville, Tampa, Pensacola, Panama City, and Tallahassee—incorporating a U.S. Small Business Administration loan.

"[Buyers] want equity," says Walshaw, whose company began selling warehouse condos in Florida in 2003, and created its first retail center in 2006 due to market demand for a grocery store-anchored

center. "They want to build their net worth through ownership of real estate. My vision is to have individuals build product for small businesses throughout the country so they can take advantage of ownership rather than leasing."

#### TO BUY OR NOT TO BUY?

Most small business buyers of office space are established and growing, developers say. Small firms locating in Global Group's Class A office condo projects operate in industries such as finance, insurance, real estate, technology, and importing/exporting. In its \$45 million Gateway Profes-

sional Campus in Jacksonville, Fla., office condos range from single units at 1,200 square feet to entire buildings of approximately 24,000 square feet.

Business Condo USA's key clients include enterprises that have survived the first five years of business and want to buy larger space so they can have room for growth. However, Walshaw notes that sales have dropped from 10 to 15 contracts a month to about five, and start-ups are not as likely to buy an office condo in this economy.

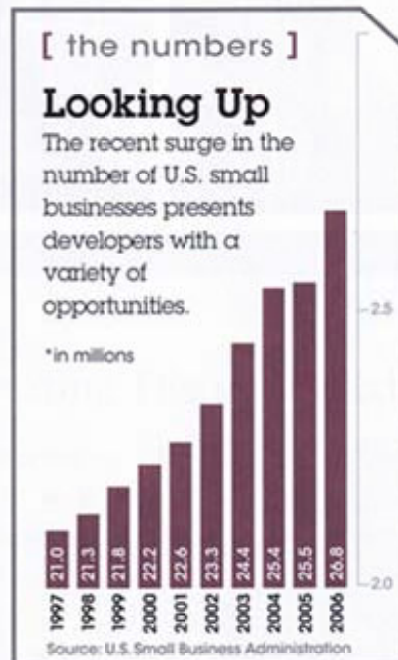
"I'm seeing a lot of frightened small businesses out there," he says. "Has there been a slowdown in volume or sales or call volume? Yes, a little bit. They aren't so quick to pull the trigger on buying something because they're not sure where their business is going to be in the next six months to a year."

One downside of condos for businesses sometimes relates to potential expansion. Randy Mercer, a broker with CB Richard Ellis, says a company in growth mode is often interested in shorter-term leases in buildings with room to add space.

That's not holding Business Condos USA back. It plans to develop condos in the Atlanta, Greenville, S.C., Memphis, Tenn., Dallas, and Los Angeles markets. Walshaw believes small companies will be enticed by allowances and other incentives to help them become real estate owners.

Indeed, now might just be the time for small businesses to make a move. ■

*Lori Johnston is a freelance writer living in Athens, Ga.*



**Major Upshot:** Despite an uptick in office vacancies, developers continue to invest in office space, thanks in part to the stability offered by a powerful small business sector.