In of itself, real estate does not create wealth. Rather, it is the people who create new products and services that ultimately drive the demand for space in office and industrial buildings. Commercial real estate simply reflects the demand and overall health of the market. It is investors and entrepreneurs, bringing their dreams to reality who create economic booms and drive the need for leased space.

Probably the biggest local example is when Qualcomm developed the CDMA: a unique digital wireless technology allowing them to become the industry leader in mobile communications. This success fueled a boom of commercial real estate in Sorrento Mesa, where Qualcomm is located. Other examples are the clusters of biotech companies in La Jolla and the golf manufacturing industry in Carlsbad.

Reports on commercial real estate seem to generally focus on statistics such as vacancy rate, absorption, and specific lease comps in a given market. In other words, most reporting typically looks at real estate on a *micro* level. As a building owner, however, it is important to understand what coming changes might drive demand for tenants to lease their buildings. This article examines some of the *macro* trends in society, as a whole, that impact demand for real estate. These changes are not generally found in discussions about real estate, but rather in the general news. For that reason, this article is intended as a more broad and high altitude look at the market, or a “view from 30,000 feet”.

Three emerging trends that are or will have a significant impact on the demand for office and industrial real estate are as follows:

**Declining office space needed per employee.** According to a 2014 study by Norman G. Miller from the Burnham-Moores Center for Real Estate, titled, “Workplace Trends in Office Space: Implications for Future Demand”, office space per employee peaked in 2010 and dropped by almost 20% by 2013. This is a rapid and significant drop that is likely to continue. (The study measured 54 major office markets in the United States based on CoStar data.)

In the few short years I have been at our Carlsbad office, I have noticed the same trend. High speed internet and laptop computers allow more of our agents to work from home and spend less time in the office. Previously, it was a given that every agent had their own, permanent work space. Now, rather than the traditional dedicated workspace, agents who rarely visit the office are set up with a shared or “hotel” cubicle. This trend allows our office to continue growing, by hiring top talent, without the need to lease more workspace. This growing trend is happening across the nation.
Ride sharing and driverless cars.
In a September 25, 2016 editorial, the San Diego Union Tribune noted Lyft co-founder John Zimmer who stated a coming “transportation revolution”. According to him, within five years the majority of Lyft rides will be in driverless cars made by General Motors. By 2025, he predicts “private car ownership will all but end in major U.S. cities,” freeing up vast amounts of land now used for parking. The article quickly notes this last prediction is probably too optimistic. I recently listened to the Ford Motor Company CEO in an NPR interview, and he echoed similar thoughts. Seismic-level changes are coming to how we commute, and this has profound implications for commercial real estate, namely in land needed for parking.

We all know of buildings that are under parked or industrial buildings that have evolved into more office space over time, resulting in a crowded parking lot. According to predictions, however, this may all change dramatically. Quite frankly, it is difficult to imagine a world where we do not own cars and do not need to find a place to park. We could see transformations in land use plans as less space is required for parking lots. The ability to utilize sites in a more productive manner and free up new development could create opportunities on newly available land.

Continued growth of e-commerce.
Each year consumers become more comfortable buying goods online. These orders are shipped from industrial buildings and many tenants are heavily engaged in online business. Not surprisingly, in some of our markets we have seen industrial vacancy rates drop to 2%. All of this indicates continued growth in the industrial sector for years to come.

After a long stretch with little or no construction in North San Diego County, we now have over two million feet of industrial distribution space planned for construction over the next twenty four months. New product will focus on higher clear heights, dock loading, divisibility for a wide range of tenant sizes, and good truck access. Last week I spoke to a major developer who stated he wanted to be the “best building on the block” and how tenants value volume over square feet. He shared the example of how it makes more economic sense for a tenant to lease 10,000 square feet in a 32 foot clear warehouse at higher rent instead of 15,000 SF of an 18 foot clear warehouse at a lower rent because of the volume they can achieve in less square feet. Newer buildings will incorporate these factors and will be able to command higher prices.
Summary.
If we look at trends in demand that affect both office and industrial space, it is almost like a “tale of two markets”. The vacancy trend chart demonstrates this reality. In the office sector, we are seeing declining space needed for employees and major shifts in how people work. Trends indicate that there is plenty of available office that can be re-purposed and re-configured to meet this somewhat static or declining demand. Refurbishing this space can be expensive. Industrial space, however, is very tight and it appears demand will remain strong for years to come. Based on these trends, it may be best sell the office buildings in your portfolio and buy or keep industrial buildings.

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