

COMMERCIAL REAL ESTATE

Some reasons why demand is exceeding supply

Supply and demand. A basic economic principle first discussed in the 17th century by scholars such as John Locke, Sir James Steuart and Adam Smith.



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Contributing columnist

This Adam Smithian seesaw has

broad implications in the commercial real estate market. If supply exceeds demand, a buyer's market ensues. Conversely, sellers win when demand exceeds supply.

Currently, Southern California is engulfed in a seller's market largely because of this imbalance between available buildings — supply, and businesses looking to expand — demand.

Seldom discussed, however, are the reasons such an imbalance exists. Here's a look at some of those reasons.

Lack of new construction

A spate of new construction would, in fact, cause the supply of available inventory to increase, resulting in a parity of demand and supply. But akin

to fighting a wildfire with a water pistol, the thirst for supply will not be completely quenched with new construction.

So, with this shortage of supply, why haven't we seen more building? The reasons are simple. Southern California has a lack of undeveloped land. Virtually all of the new construction we've seen in recent years has started with a site containing obsolete buildings that were razed to accommodate the new construction.

New construction is expensive. Land prices are a huge component of new construction — in some cases measuring half the

cost — especially since the land includes old buildings that need demolition. The entitlement process is challenging. Cities and counties locally have extensive regulatory requirements in place, which add months to the construction time of a new development.

A repurposing to housing

Many, many thousands of industrial square feet have been retired in favor of high-rise apartments and condominiums. Doubt what I say? Just take a look at the area surrounding Anaheim Stadium or John Wayne Airport. For-

merly, those areas were home to local manufacturing and logistics businesses. Now gracing the skyline are three- and four-story buildings under construction, which will provide much-needed housing to stem another shortage — but at the expense of buildings where people worked and products are made and shipped.

Money is cheap

Companies can invest 10 percent of the purchase price of a building, finance the balance with a loan through the Small Business Administration, and with Eisenhower-era interest rates, enjoy a payment

that closely approximates a lease payment — but while owning. Many companies have taken advantage of this structure and the abundance of capital.

When will our markets return to normal? Unfortunately, my crystal ball is as murky as the Southern California sky on a June morning.

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