

| FEATURED ARTICLE

SMALL BUSINESSES

The Economy's Growth Engine

By Amanda Marsh

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While it seems that large, multi-national names drive the U.S. economy, small businesses cannot be dismissed. These companies comprise over 99 percent of all employer firms, employ nearly half of the workforce, and account for more than 60 percent of net new private-sector jobs, according to the U.S. Small Business Administration (SBA).

"Helping them expand—to get their ideas off the ground—is one of the best ways to support economic growth, and needs the continued focus of both elected officials and the private sector," Goldman Sachs CEO Lloyd Blankfein, former New York City mayor and Bloomberg LP founder Michael Bloomberg, and Berkshire Hathaway chairman and CEO Warren Buffett wrote in USA Today last June.

Statistics from the 2010 U.S. Census showed 27.8 million small businesses (defined by the SBA as an independent business with fewer than 500 employees) versus 18,500 firms with 500 employees or more.

A Real Estate Perspective

Over half of the deals Whitebox Real Estate is working on in the Dallas-Fort Worth metropolitan area constitute small businesses, noted president and managing director Grant Pruitt, SIOR, President & Managing Director, Whitebox Real Estate in Dallas. The firm has brokers that deal almost exclusively with startups, such as The Tot, a one-stop resource for mothers and mothers-to-be that recently took 4,300 square feet in the suite next door to Whitebox at 400 South Record Street in Dallas.

"It may not seem like a huge deal now, but they're going to grow," he pointed out. "Many of our deals are in the under-25,000-square-foot range, as a reflection of the overall market."

In Atlanta, where Dudley Thomas Spade SRE operates, 40 percent of tenants closing deals are small businesses—even more in healthcare, one of the firm's specialties.

"There hasn't been a better time to start a small business, because there are so many subscription models that allow you to scale easily," explained president W. Bryant Cornett, SIOR, LEED AP, president, Dudley Thomas Spade SRE in Atlanta.

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He pointed to services focused specifically on helping these small businesses grow, like co-working office provider WeWork, customer relationship management platform Salesforce, and mobile advertiser Google Ads.

"With 11 people, we have access to services — additional office locations, CRM, and advertising models—that would have been impossible for a company of our size even seven years ago."

WeWork is only one of the many well-known names in the co-working sector, which has taken commercial real estate by storm. In October, the company had locations in 19 U.S. cities and 11 foreign countries, with plans to expand to India.

Pruitt noted that WeWork recently signed a 40,000-square-foot lease in Uptown Dallas, across the street from a

67,000-square-foot new Regus concept known as Spaces.

"Everyone is watching attentively as to what WeWork is doing, because they and other co-working spaces are looking to expand," he said. "I've talked to two or three other groups interested in doing similar concepts, and I'm only one broker in the market. They're gobbling up a lot of space, and we're waiting to see how the trend will shake out."

He expressed some concern, however, over the breadth of this expansion.

"It reminds me a lot of what happened in the data center market about eight years ago," he explained. "Anyone who was anybody was taking space to open a data center. Then we saw price compression, which drove people out of the market. Co-working spaces that are looking at high-end, expensive, Class-A office space have to realize they need a lot of people in there in order to afford the rents."

The Snowball Effect

Many small businesses are growing in markets where strong economic development supports attracting larger businesses.

"In our region, most of the economic development infrastructure is focused on bringing in major tenants like Mercedes Benz and other Fortune 100 companies — they should be," noted Cornett. "And when they're successful, companies bring employees who need housing, cars, schooling, and healthcare. Positive job growth is the most powerful driver, and if you can nurture it, you're going to have small businesses that grow around the larger ones."

Pruitt's brother is also a broker and represents two buildings right by Toyota's new Legacy campus in West Plano, Texas. Those buildings are 95 percent leased, thanks to small business growth.

"Small businesses seem to have leased every spec suite they could get their hands on," Pruitt said. "They're the law firms, marketing firms, and accounting firms that are coming to service Toyota's needs. Even a small piece of business from a larger company allows cash flow and money to invest in other resources. And these types of businesses are still coming and growing at a rapid pace. The more people come, the more services we'll need."

There is no dichotomy between large and small businesses, Cornett added. The economy has given people confidence that they can place bets and move to new space or an expanded facility; in the healthcare space, a number of dentists, physicians, and other owners have decided that even with uncertainty in their industry, there is enough going right in the economy that they must grow their businesses.

"Each have a place in [Atlanta], and without each other, neither will work out. The large businesses provide a rising tide, bandwidth, and opportunity. They also have a significant need for specialized services. Without tenants like Coca-Cola, UPS, and the Home Depot to provide so much value and so many jobs, there wouldn't be enough healthcare delivery in the market to support a small business."

The uptick in the office sector and subsequent housing expansion has also positively impacted industrial. When housing tops out, as it has currently, service companies grow to serve homeowners, explained Michael Royce, SIOR, CSCMP, principal at Avison Young in Gaithersburg, Md, and co-leader of Avison Young's industrial practice in the Mid-Atlantic region.

"From electricians to plumbers, these vendors are either expanding their spaces or looking at new markets," he said. "People are spending money to fix up, add on, or repair various household items, and all of these tasks drive the

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small business economy on the industrial side."

Most of these businesses are in the 10,000- to 25,000-square-foot range, which makes up approximately one quarter of his firm's regional business. Royce recently completed two tenant transactions in Beltsville, Maryland: 12,000 square feet for a waterproofing company based in Boston that expanded to Maryland for business opportunity, and 20,000 square feet for a heating and air conditioner supplier that has locations in Annapolis and Pennsylvania but wanted to be closer to Washington, D.C.

Will Threats Temper Growth?

Growing small businesses is not without challenges. In June, Babson College released its State of Small Business in America 2016 Report, which highlighted some of the trials its surveyed small businesses face. Among them:

- Respondents, who rely on banks as their primary source of funding receive less than half of the amounts they request.
- Nearly 60 percent identified some level of difficulty understanding and managing government regulations and laws, spending four hours per week dealing with them.
- Over 70 percent find it difficult to hire qualified employees, because potential candidates lack the requisite skillsets.
- Nearly 80 percent recognize the importance of technology to the growth of their business, but are concerned about awareness and affordability of resources.
- Over 40 percent feel ill-prepared about cybersecurity and intellectual property exposure, and nearly 25 percent have been victim to cyber-attacks.

About half of all new establishments survive five years or more, and about one-third survive 10 years or more, with the probability of survival increasing with a firm's age. These rates have changed little over time, according to the U.S. Bureau of Labor Statistics.

Among ways to address these challenges and ensure further growth include:

- Educating small businesses on a variety of lending sources, models, and financing products available.
- Forming public-private partnerships, especially with community colleges, to address employee and business owner skills and provide a source of qualified labor.
- Offering healthcare as a competitive advantage and retention tool.
- Expanding entrepreneurial training programs' emphasis from the development of technology-based businesses to the development of businesses through technology.
- Providing better information about ecosystem resources available to support innovation activities.

But while improved and expanded training and education is a key path to enabling the success of small businesses, it is not sufficient, the Babson report warned.

"Changes in policy and practice are also needed to enhance the business environment, reflecting the capacities of the vast majority of companies in the country: the small ones. Small businesses—enabled by education and support systems—have the power to transform America." ▼

CONTRIBUTING SIO RS



Bryant Cornett,
SIOR, LEED AP



Grant Pruitt,
SIOR



Michael Royce,
SIOR, CSCMP