



Andrew B. Zezas, SIOR
Relationship Manager,
Strategist, President & CEO
(908) 245-5999 x11
andrew.zezas@realstrat.com

Real Estate and Doughnut Holes

When my son was two years old his mother took him to his favorite doughnut shop. With his limited vocabulary, he found himself struggling as he asked for “ball-food.” What he wanted were those little middle-of-the-doughnut treats. Today’s commercial real estate market is like the hole left by those doughnut treats; the middle is missing. And many of today’s business executives may feel as helpless as a two-year old when trying to chart their company’s course through such a void.

Throughout major office and industrial markets around the country, this "doughnut" phenomenon is increasingly evident. The middle market, including blocks of office space between 20,000 and 75,000 square feet and blocks of logistics space (industrial / warehouse / distribution) between 50,000 and 99,000 square feet, is incredibly quiet. Despite this fact, certain areas, such as northern New Jersey's Meadowlands, continue to experience strong demand for logistics space due to that market's proximity to New York, Boston, Philadelphia, and Washington, DC.

In primary, secondary and third-tier markets, small tenants are the only sign of continued demand for commercial space and are responsible for keeping some property owners in business. In some areas, large companies have secured or are seeking to acquire major blocks of space. This is true for both the people and logistics space arenas.

A recent example: Mellon Financial is believed to be searching for approximately 1,000,000 square feet of office space to consolidate facilities into New Jersey from nearby states. Companies dependent on their ability to move products quickly and cost effectively are re-thinking supply-chain logistics. In many cases, companies such as Crate & Barrel (750,000 square feet), Volkswagon (928,000 square feet), Petco (306,000 square feet) and others have secured huge logistics and / or distribution facilities in east coast markets. Logistics experts suggest that some of these companies are basically retooling for an expected economic upswing in an attempt to increase their value by

positioning themselves to move products quicker and at lower cost than their competition.

Andrew B. Zedas, SIOR, is Relationship Manager, Strategist, and President & CEO of Real Estate Strategies Corporation, Publisher of "*Business, Profits and Strategy*", a monthly online publication read by thousands of business, financial, and real estate executives nationally, and, is the author of two new real estate books, *The CFO's Guide to Understanding Corporate Real Estate Transactions* and *The CFO's Guide to Hiring the "Right" Real Estate Service Provider*, both of which will be available shortly at www.thecfosguide.com.

Mr. Zedas is well-known for his ease and informative style of public speaking, and has given talks, presentations, and has lead educational programs for business, professional, government, and trade associations, including the Building Owners and Managers Association, American Management Association, the U.S. Postal Service, RealComm, Society of Industrial and Office Realtors (SIOR), and others. Andrew is National Chairman of the SIOR Tenant Representation Specialty Practice Board, and is a licensed real estate instructor in Texas and Indiana. He can be reached at 908 245 5999 or via [email](mailto:andrew@realstrat.com).

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