



Solutube International paid \$4.95 million for the 53,269-square-foot industrial building at 2210 Oak Ridge Way in Vista.

PHOTO COURTESY OF CB RICHARD ELLIS

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San Diego County commercial real estate began to see more interest from investors in fourth-quarter 2009 that is slowly turning into increased activity in 2010.

Groups that were waiting on the sidelines to buy and lenders that weren't ready to sell troubled assets at reduced values last year appear ready to do deals this year.

Investment totals were higher for all four major property types in San Diego County in the fourth quarter, with transactions above \$5 million for the last three months of 2009 reaching \$78.9 million for apartments, \$164.3 million for office buildings, \$155.3 million for retail properties and \$74.7 million for industrial assets, according to New York-based **Real Capital Analytics**.

By the end of the year, property values fell enough in response to rising vacancy rates and declining rents to capture the interest of some buyers.

San Francisco-based **LoopNet** reported that San Diego County capitalization rates increased between the fourth quarters of 2009 from 2008 to 6.5 percent from 5.9 percent for apartments; to 8.1 percent from 6.3 percent for industrial buildings; to 8.8 percent from 6.5 percent for office properties; and to 6.4 percent from 5.7 percent for retail assets.

Sluggish consumer traffic caused retail vacan-

Investment Activity Picking Up in San Diego

cy in San Diego County to jump to 5.4 percent at the end of 2009 from 3.7 percent in 2008 and 3.1 percent in 2007, according to **Voit Real Estate Services**. Average asking rents dropped to \$1.93 per square foot per month in 2009 from \$2.05 per square foot over the same timeframe.

San Diego-based **Westcore Properties**, which is looking at retail, office and industrial properties this year, bought the 72,205-square-foot industrial property at 5258-5260 Anna Ave. in Old Town for an undisclosed price in the fourth quarter from the San Diego Union-Tribune. The newspaper owned the distribution building for 25 years and sold it as vacant, excess corporate real estate last quarter.

"We did take lease-up risk on it and we're trying to lease it now," said Steven Bollert, principal and director of acquisitions at Westcore Properties. "Demand is somewhat tepid, but we have an interested party. The good news is that it's the only game in that part of town for a building that size."

Direct vacancy in the San Diego County industrial market reached 10.6 percent in the fourth quarter, according to **Cassidy Turley BRE Commercial**, but total vacancy rose to 12.7 percent when sublease space was counted. Asking rents were 89 cents per square foot per month in the fourth quarter, down from 98 cents a year earlier.

With property conditions sliding, Bollert said there is intense competition among investors to buy high-quality real estate. Opportunities for institutional-quality assets and for the value-add properties that Westcore is targeting are few and far between, but there seem to be a few more assets on the market in 2010.

"We're hopeful to place and purchase in excess of \$250 million this year," Bollert said.

Prices are at more reasonable levels this year when lenders and special servicers are the sellers, he said. Where bids have gotten higher and capitalizations rates lower are on stabilized assets that attract institutional investors.

"For the right buyer, if you are a purchaser of income-producing properties, then, yes, those

deals certainly make sense," Bollert said. "For guys like us that are value-add, those deals don't make sense."

With so few Southern California office and industrial transactions in 2009, capitalization rates have begun to dip in 2010 and buyers have added a "scarcity premium" to their bids for the few assets that are on the market, according to Lynn LaChapelle, managing director of capital markets at **Jones Lang LaSalle** in San Diego.

The largest office transaction in the fourth quarter was the \$75 million acquisition of the five-building, 356,500-square-foot Seaview Corporate Center in the Sorrento Mesa submarket by the Los Angeles-based real estate investment trust **Pacific Office Properties Trust Inc.** in partnership with private investment advisor **Angelo, Gordon & Co.**

Since then, a few sizeable office properties have garnered attention from investors, including the 139,197-square-foot office building at 1450 Frazee Road in Mission Valley that sold for a reported \$18.4 million in February. Jones Lang LaSalle received 18 bids for that asset when it went to market in December.

"In the fourth quarter we were very busy preparing valuations and working with people to finalize numbers, with the thought that they were going to be bringing properties to market in the first quarter of 2009," LaChapelle said.

Real estate investment trusts, pension fund advisors, local opportunistic buyers and private capital sources are looking at San Diego office and industrial properties, while institutional owners, private property holders and some banks are preparing to sell assets.

In the office market, those investors will have a hard time finding stable properties. **Studley** reported that office vacancy reached 16.3 percent in the fourth quarter, up from 13.6 percent a year earlier and 10.6 percent five years ago. Fourth-quarter asking rents of \$2.34 per square foot per month were above the \$2.29 average rate the past five years but down 42 cents from \$2.76 a year earlier.

Fundamentals are beginning to improve in the

apartment sector, according to a fourth-quarter 2009 report from **Cushman & Wakefield**, which cited 4.39 percent year-end vacancy, down from 5.29 percent in March 2009, based on data from San Diego-based **MarketPointe Realty Advisors**. However, monthly rents dropped to \$1,322 from \$1,344.

Allen Chitayat of apartment brokerage **Hendricks & Partners** in San Diego closed three transactions for sellers in the fourth quarter — the \$10.7 million sale of the 122-unit Mission Terrace in Escondido; the \$4.5 million sale of the 56-unit University Terrace; and the \$7.7 million sale of the 67-unit Windsong Villas in Escondido.

Chitayat said investment activity appeared more robust in the fourth quarter than in the previous quarters of 2009, with some new buyers from outside the region looking for apartment opportunities in San Diego County alongside local operators. Most apartment buyers have been private investors, but some individuals and institutional owners show interest.

"They are experienced apartments owners that are coming back into the market sensing that operations are beginning to stabilize and seeing that prices have adjusted," he said.

With limited distress in the apartment market, most sellers need to raise cash or they're taking profit now to consolidate portfolios.

"There's definitely less inventory on the market and definitely a lot more interest," Chitayat said. "Some of the properties that we're taking to market now are receiving a lot more interest earlier in the process than they would've this time last year."

Investors are gaining confidence in the market and an understanding of multifamily property values, so they're looking at their options for buying apartments rather than sitting on the capital they've raised.

"I would expect overall activity this year is going to remain somewhat similar to last year with a tempered increase," Chitayat said.

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