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Commercial construction starts hit zero

Not one builder sought a permit in San Diego County last month

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In March, for the first time in more than two decades, a month went by in which no builders asked for a permit to build commercial buildings in any part of San Diego County, a construction industry group said Monday.

The retrenching of businesses in the Great Recession led to a vast supply of empty office space. Commercial construction spending has been falling steadily so that a "zero" month as reported by

the Construction Industry Research Board, a Southern California-industry group, came as little surprise to analysts and brokers.

"It's unprecedented, but it was bound to happen," said Ben Bartolotto, director of research for the board.

The amount of new commercial construction in Riverside County rose to \$21.7 million in March from \$16.7 million in 2009; expenditures are still far below the June 2006 peak of \$112 million.

In the first three months of 2010, 25.8 percent of North San Diego County office space was vacant, and asking monthly lease rates were \$2.30 to \$2.85 per square foot, according to Cassidy Turley Commercial Real Estate Services. By comparison, at the peak of the market in late 2006, the vacancy

rate was 15.1 percent, and asking monthly lease rates ranged from \$2.65 to \$3.25 a square foot.

"If your sweet spot was the two-story tilt-up, you're out of business, man. There's nothing happening," said Doug Cowan, an executive vice president in commercial building for Jones Lang LaSalle.

Cowan said there's a little more activity in Southwest Riverside County, where he's working on a new building for a BMW dealership in Murrieta, but he doesn't think there's a trend of new commercial construction. With houses there selling at half their 2006 value, residential real estate is holding back the local economy, he said.

But San Diego commercial space renters are starting to come back to the market. To attract

them, landlords are offering free months of rent, and construction costs for renovations are down, said Doug Lozier, a senior vice president with CB Richard Ellis.

Big companies looking for 100,000 square feet or more are seeking to sign long-term deals at today's low rates, analysts say. On Monday, Richard Ellis announced that Nokia just leased 197,000 square feet in Rancho Bernardo.

And after four years of decline, the low prices and good terms are starting to draw even smaller tenants back into the market, said Rick Reeder, a commercial broker with Cassidy Turley. As they come back, some builders are anticipating new construction.

"I'm having a few conversations with tenants about buying dirt," Reeder said. "But we still have a long way to go."